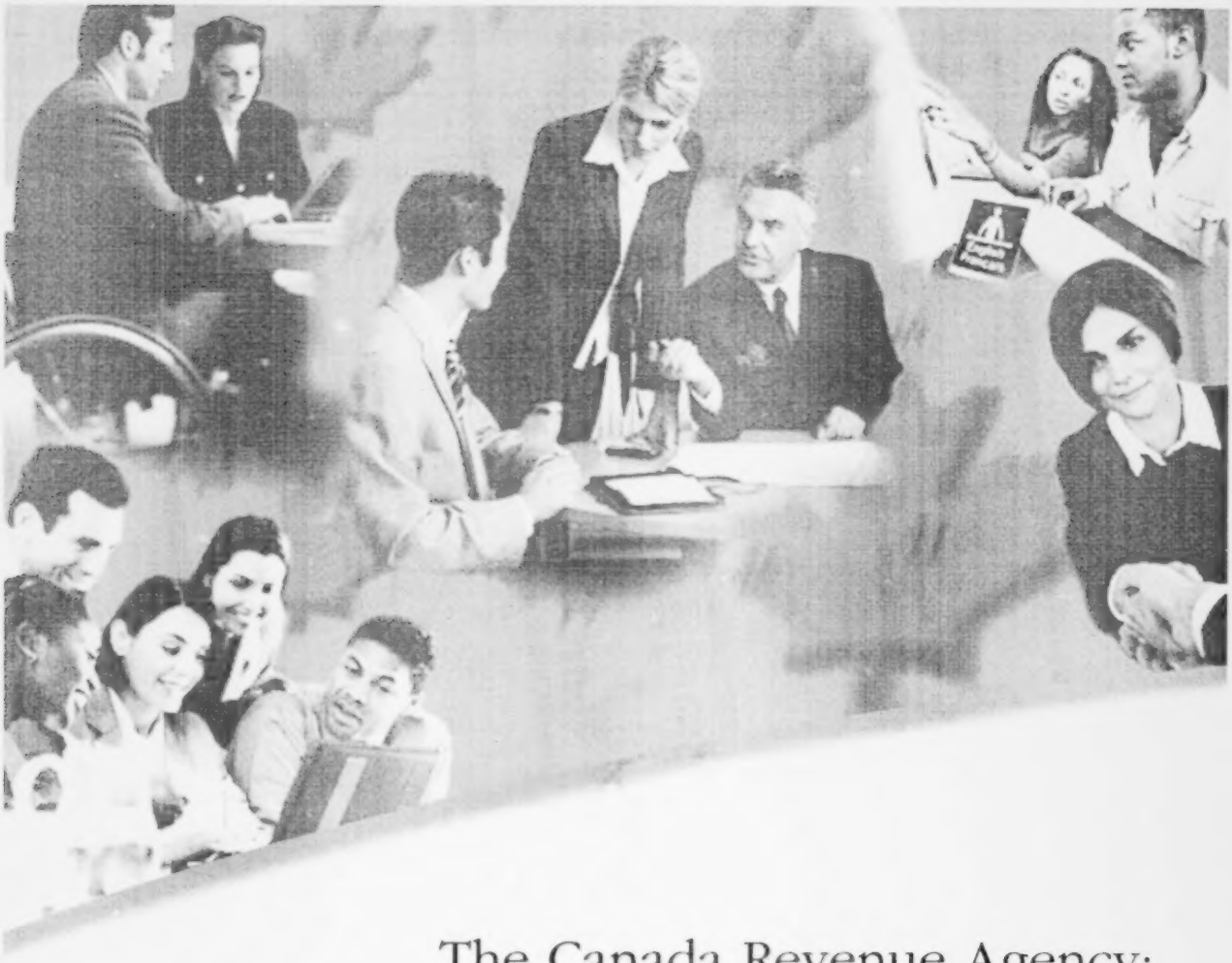

The Canada Revenue Agency: The First Five Years

Setting the Foundation for Tax and Benefit Administration in the 21st Century

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Canada

On December 12, 2003, the Government announced that the Customs function of the Canada Customs and Revenue Agency (CCRA) was transferred to the Canada Border Services Agency. As a result of this transfer, it is proposed that the CCRA be continued under the name of the Canada Revenue Agency (CRA). This name change is contemplated in Bill C-26, *An Act to establish the Canada Border Services Agency*, which has received second reading at the time of printing of this document.

To reflect these proposed legislative changes, and to ensure the reader understands that the information contained in this document pertains only to the CRA, we are using the name of the CRA throughout this document. It should be noted, however, that all references to the CRA contained in the body of this document are to be read as a reference to the CCRA.

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Introduction

Section 89 of the *Canada Customs and Revenue Agency Act* requires that Parliament undertake a review of the legislation five years after its coming into force:

"89. (1) Five years after the coming into force of this section, a comprehensive review and assessment of the provisions and operation of this Act must be undertaken by any committee of the House of Commons, of the Senate or of both Houses of Parliament that is designated or established for that purpose.

(2) The committee designated or established for the purpose of subsection (1) must submit a report to Parliament within a reasonable time after completion of its review and assessment."

The *Canada Customs and Revenue Agency Act* was proclaimed on November 1, 1999, so the five year mark was reached on November 1, 2004.

This report is submitted to Parliament in the expectation that the parliamentary committee will wish to review the provisions and operation of the Act with a clear understanding of the legislation and its implementation, along with the consequences the legislation has had for the operations of the Agency and for the quality of its services. The Report is designed to help parliamentarians understand the government's objectives in putting the Agency in place, the general scheme of the Act, and its accomplishments over the past five years. It does not present any proposals for amendment of the Act since the current provisions have been found to be appropriate for the Agency's operations during these five years.

It is also important to note that the report deals only with tax administration and benefit programs that are currently the responsibility of the Canada Revenue Agency. When the Agency was created in November 1999, it encompassed both customs and revenue administrations. However, on December 12, 2003, the parts of the Canada Customs and Revenue Agency dedicated to the administration of customs statutes were transferred to the Minister of Public Security and Emergency Planning under the *Public Service Rearrangement and Transfer of Duties Act*. The decision to separate customs and trade services from the Agency and transfer these functions to the new Canada Border Services Agency was the result of the Government's commitment to enhanced security through strong border protection. As a consequence, the Agency is now known as the Canada Revenue Agency (CRA). This Report only deals with customs administration to the extent necessary to explain the overall functioning of the Agency since its establishment.

CRA at a Glance

- Collected over $288 billion averaging over $1.1 billion every working day
- Almost 1.5 million employers withheld and remitted $162.6 billion in source deductions
- Benefit and credit payments worth nearly $12 billion to over 10.6 million eligible Canadian recipients
- Over 60 agreements with other government departments and agencies for joint program delivery
- Collected over $40 billion on behalf of the provinces, territories, and First Nations
- Application of Fairness Provisions—approximately $475 million in interest and penalties waived or cancelled
- Over 77 million tax and benefits related hits on CRA's Web site
- Approximately 23.4 million public enquiries answered
- Almost 16,100 volunteers completed more than 516,000 tax returns
- Nearly 23 million individual and trust tax returns and 1.5 million corporate tax returns processed
- Workforce of up to 44,300 employees across Canada during peak operational periods

Executive Summary

Background and Legislation

In 1996, the Government announced in the Speech from the Throne and the Budget that it intended to convert Revenue Canada from a department of government into what it then called a "revenue commission". In taking this step, the Government wanted the new organization to achieve three objectives:

- provide better service to Canadians;
- become a more efficient and effective organization; and
- establish a closer partnership with the provinces and territories.

Bill C-43, *An Act to Establish the Canada Customs and Revenue Agency*, was introduced into Parliament in June 1998 and assented to in April 1999. The Canada Customs and Revenue Agency, later referred to as the Canada Revenue Agency (CRA), came into existence on November 1 of that year.

The legislation contains five major elements: mandate and governance of the Agency; accountabilities; partnership responsibilities; human resource authorities; and administrative authorities.

The Agency was created as part of the Government's experiment with 'alternative service delivery' and the legislation gives the CRA considerable flexibility and latitude in the human resources, financial, and administrative areas. Apart from the management of public monies, which continues to be governed by the *Financial Administration Act* (F.A.A.), the Agency is effectively given full authority for human resource and general administration – authorities which to this point had been the responsibility of Treasury Board, the Public Service Commission (PSC), and Public Works and Government Services Canada (PWGSC).

The legislation also established a governance regime for the Agency that is unique in Canada. The Minister of National Revenue retains full responsibility and accountability for the administration by the Agency of tax and benefit legislation, notably the *Income Tax Act* and the GST legislation. The Act created a Board of Management from the private sector (except for the commissioner's position) to oversee the human resources, financial, and administrative authorities which were formerly the responsibility of central agencies. It created a Commissioner who is effectively accountable to the Minister for the day-to-day administration of the program legislation and to the Board for the day-to-day administration of the HR and administrative authorities.

The partnership provisions of the legislation give the Agency the authority to implement agreements (under certain conditions) with other federal departments and agencies, with provincial and territorial governments, and with aboriginal governments. The important relationship with provinces and territories is strengthened by the requirement that eleven of the fifteen members of the Board of Management be nominated by them.

The accountability provisions round out the legislation by putting in place a strong and transparent regime that ensures Agency actions are reported upon and given proper scrutiny by appropriate authorities. Indeed, the Agency is arguably subject to stronger accountability requirements than virtually any other federal organization. Accountability to Parliament is guaranteed by the longstanding concept of ministerial responsibility, coupled with the fact that the Auditor General is named as the Agency's auditor. As well, the CRA is required not only to submit the report on plans and priorities and the departmental performance report required by the F.A.A., but it also must submit two additional documents: the Corporate Business Plan and the Annual Report. The PSC is required to report on aspects of the Agency's staffing system. Accountability to the provinces and territories is strengthened by the fact the Agency is required to report annually to them and to keep them and the government departments on whose behalf it administers programs apprised as to significant developments that would affect them.

The Agency's Implementation of the Legislation

Following passage of the legislation, the CRA moved immediately under the direction and oversight of the Board of Management to make use of the flexibilities it had been given in the human resource, internal financial, and administrative areas.

In the human resource area, it replaced a more process-oriented and rules-based staffing system with one where employees are recruited, selected, and promoted based on a common set of competencies matched to the organization's business needs. Staffing recourse was similarly overhauled and replaced with a system which promotes openness and dispute resolution. The Agency assumed the responsibility of a separate employer for labour relations, compensation, and collective bargaining. In order to recognize and strengthen the importance of the management function in the Agency, a new Management Group encompassing most managers below the Executive level was created along with a new Senior Management level within the Executive level.

In the financial and administrative areas, the Board of Management oversaw similarly profound changes. Costs were reduced and internal services vastly improved through a broad range of technology based re-engineering. Overall savings of $37.4 million were realized between 2002 and 2004, with the potential for further savings over the following two years. Savings were also realized in real property as a result of a number of innovations introduced in partnership with PWGSC. The Board of Management's strong emphasis on the comptrollership function resulted in more comprehensive and clear disclosures on financial matters and performance, both internally within the Agency and to outside stakeholders.

The changes in human resource administration, in the management structure, and in the internal administrative area have had a beneficial impact on management/employee relations in the Agency. This is evident in the results of two employee surveys: one completed in 1999, the year the CRA was created, and the other in 2002. They demonstrate that over this three-year period, employees' satisfaction with their jobs and work environment improved considerably.

The transformation that has occurred in the Agency over the past five years would not have happened without the drive and oversight of the Board of Management. The Board brought an external private sector perspective to its work and a healthy challenge function to senior management. It made the Agency more entrepreneurial and efficient in management and administration. Its strong interest in performance reporting resulted in the Corporate Business Plan and Annual Report becoming the key planning and reporting documents in the Agency, and being recognized as exemplary within the public service. It also ensured that performance measurement has been pushed down to all managerial levels through a series of results-based accountability contracts.

The CRA also moved quickly to strengthen its relationship with provinces and territories. Service Management Framework Agreements were signed with most provinces and territories to better manage the relationship. The Commissioner has met regularly with his counterparts in the provinces and comprehensive annual reports have been prepared for each province and territory as required by the legislation. The relationship has generated economies and efficiencies for the provinces from the increasing number of programs the Agency is being asked to deliver for them and the growing number of requests to provide data to enable them to deliver programs in a more effective manner.

The rigorous accountability regime which the legislation put in place has been fully observed. The Auditor General is given full access and co-operation in conducting her audits of the Agency and the Agency has been efficient in implementing her recommendations. The Corporate Business Plans and Annual Reports have evolved over the past five years to the point where, as mentioned, they have become models for such reporting. The heightened accountability and reporting to provinces and territories have also been observed through the provision of the annual reports and frequent meetings with the provinces.

In summary, over the past five years, the Agency has been diligent in ensuring that the *Canada Customs and Revenue Agency Act* has been implemented in a responsible manner that fully observes both the intent and the letter of the legislation. By the same measure, it is important to note that five years is a short period within which to accomplish the sweeping changes in internal human resources and administrative systems that are permitted by the Act and that are planned and approved by the Board of Management. While much has been accomplished, the internal systems of the Agency are still very much a 'work in progress' that will continue to evolve and grow in the future.

The Operational Achievements of the First Five Years

The manner in which the Agency implemented the legislation has resulted in meeting two of the original objectives that were set for it: a more efficient and effective administration and a closer relationship with provinces and territories. Importantly, however, the fundamental transformation of the Agency's human resource and administrative regimes also served as the essential ingredient in enabling the Agency to meet the third of its objectives: improving service to Canadians.

Highlights of the service improvements are described in detail in the following report. Canadians now have immediate access through the Internet to information they need to correctly file their tax return.

They have secure on-line access to information related to their income tax returns, Canada Child Tax Benefit, GST/HST credit, and related provincial and territorial benefit programs. Businesses are able to register on-line, file returns using the Internet, and pay their taxes electronically through financial institutions. There have been significant service improvements to the Scientific Research and Experimental Development tax credit program and to the Charities program. Numerous achievements in the Agency's compliance program have ensured that the federal tax system continues to be governed by fairness and impartiality.

The Agency's achievements of the past five years have been directly dependant upon the legislation passed by Parliament in 1999. The Board of Management's drive and determination to ensure the human resource and administrative flexibilities in the legislation were exploited to their fullest produced a cultural change in the organization that prizes innovation, service, economy, and accountability. Under the Board's oversight, the Agency revolutionized the way it does business by adopting strategies that increased the speed of its decision-making and operations, the flexibility of its resources, and its responsiveness to taxpayers. This increased agility resulted in a sound and comprehensive IT program that has served as the backbone for modernization initiatives in the human resource, administrative, client service, and compliance areas, and a program that is increasingly capable of serving wider federal and provincial interests. The legislation, in short, has been responsible for producing a tax and benefit administration that is recognized nationally and internationally as an exemplary organization and a service provider that will continue to deliver benefits for Canada and Canadians into the future.

Chapter I The Creation and Structure of the Canada Revenue Agency

The Canada Customs and Revenue Agency came into existence by Act of Parliament on November 1, 1999. This chapter describes the background and the issues at play that influenced the decision to create the Agency.

The 1990s were a period of experimentation in the delivery of government services around the world, particularly among developed countries and perhaps most particularly in Commonwealth countries. Governments everywhere were struggling with deficits and the problem of reducing government services in an effort to strike more balanced budgets. As a consequence, governments were looking for new and innovative ways to deliver more with less. In Canada, this initiative became known as Alternative Service Delivery, or ASD.

ASD, like its counterparts around the world, was based on the concepts of:

- moving towards more client-centered service;
- giving organizations greater autonomy to achieve more client-centered service by freeing them from the government-wide rules under which most departments operated; and
- diminished political control over purely administrative decision-making—the idea being that governments should reserve to themselves the policy and directing role that determines the services to be provided, but that they should not have a direct hand in administration itself.

Some governments, particularly New Zealand, Australia, and the United Kingdom, embraced this approach wholeheartedly and aggressively. The U.K., for example, moved fully three-quarters of its public service into one of 127 ASD-type executive agencies where there was increased decision-making by officials and diminished political involvement.

In Canada, however, the political accountability of such semi-autonomous agencies was a major concern to Ministers and to other Canadians as well. As a consequence, the decision was taken to proceed on a step-by-step basis, rather than with the wide-sweeping changes that had characterized ASD in some other countries. The Speech from the Throne in February 1996 took the first steps in this direction. It announced that the government would work with the provinces towards the creation of a "national revenue collection agency" and a single food inspection service. A week later, the Budget elaborated on the intent, clearly placing the creation of both the revenue and food inspection agencies within the ASD concept. The creation of these agencies was placed under the heading "New Ways of Doing Business: Alternative Service Delivery" in the budget documents, with the explanation:

> "The essence of these changes is to give service delivery organizations greater autonomy to provide their services in ways that are more responsive to the needs of their clients and that are more cost effective."

With respect to Revenue Canada and the creation of what was then called a "Revenue Commission," the Budget specifically noted:

> "By becoming more client-centered, and through its re-engineering initiative, Revenue Canada is reducing

> administrative costs and the burden of compliance. The government would like to take the next step to further improve the cost effectiveness and delivery of this essential government service by establishing a Canada Revenue Commission. This commission would carry on the existing activities of the department but would have considerably more administrative and financial flexibility that would enable it to be more efficient and more responsive to taxpayers.
>
> The creation of the Canada Revenue Commission would also facilitate the development of a closer partnership with provinces in revenue administration, as proposed in the Speech from the Throne."

In essence then, the Budget effectively indicated that the three motivating factors behind the decision to move Revenue Canada into an ASD-type agency were to provide better service to Canadians, to give it greater administrative flexibility to become a more efficient and effective organization, and to establish a closer partnership with provinces.

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Better Service to Canadians

The attractiveness of ASD and its counterparts to governments around the world was that it was seen as a means of improving the quality of services in the Public Service by focusing on client needs. As the largest federal service organization with the most daily contact with the Canadian public, Revenue Canada was an obvious choice for ASD treatment. In addition, Revenue Canada had made significant efforts with considerable success over the years to improve service delivery on both the taxation and customs sides of its operation, and, therefore, it had already made a good start in this direction. But the government believed even more could be achieved in this regard, and ASD offered the opportunity to test this out.

Greater Administrative Flexibility

As a department of government, Revenue Canada operated under the standard administrative rules that applied to some 80 other departments and agencies. The government had made several attempts over the years to reform the system, but to little avail. Many of these rules made achieving further service improvements costly and time consuming. They also made the recruitment and retention of staff with a high level of technical expertise difficult and problematic. This was a critical issue for Revenue Canada given that it administered some of the most complex legislation passed by Parliament.

Giving the Agency greater autonomy to determine its own needs and to set its own operating rules meant the Agency would be able to continue to improve service in an efficient and effective manner. From its inception, the Agency has faced challenges that differ from

those faced by many government departments. Its focus is on program operations and service delivery rather than on policy development. It is one of the largest employers within the Canadian public service, employing a large professional workforce and, at the same time, a large seasonal work force. It operates nation-wide in more than 50 tax services offices and taxation centres. It interacts with more Canadians than any other government organization in Canada. Its operations have an immediate impact on Canadians and Canadian businesses, so the Agency must be responsive to their needs and service preferences, and must continually strive to improve service and tax and benefit administration. Giving the Agency greater flexibility to manage its own human resources was intended to enable it to better attract and retain the expertise it needed, leading in turn to quicker and more responsive service to the public.

A Closer Partnership with Provinces

A short summary of the background to the relationship of the federal government and the provinces in the taxation field may be helpful to understand the rationale for wanting the new Agency to have a closer relationship with provinces and territories.

The authority to tax is contained in the *British North America Act, 1867*. This authority has remained virtually untouched over the past 138 years. Provinces are generally limited to direct taxation, while the federal government can assess both direct and indirect taxes. Broad interpretations of taxing powers over time have provided that provinces in fact have rarely been constrained from imposing their own taxes by either a legislature or the courts.

By the 1950s, this led to what was often described as a "tax jungle": overlapping and conflicting tax rules imposed by both federal and provincial governments with little acknowledgement of what the other level of government was doing. In the 1960s, the Department of Finance put more order into the regime by negotiating a series of tax collection agreements (TCAs) with the provinces. Under a TCA, a province effectively ceded to the federal government the right to determine the basic tax rules applying to individuals or corporations, while retaining the ability to determine the rate of provincial tax in relation to federal tax coupled with the possibility of providing both credits and surtaxes. In return, the administration of the provincial tax by Revenue Canada was provided free of charge.

As a result of the TCA regime, many provinces relied upon Revenue Canada to administer taxes that produced a significant proportion and, in some cases, most of their overall revenue. In 1996, Revenue Canada administered:

- individual taxes for all provinces and territories with the exception of Quebec;
- corporate taxes for all provinces and territories with the exception of Alberta, Ontario, and Quebec; and
- a number of separate tax or benefit programs for various provinces.

By the mid 1990s, however, provinces had significant concerns with the TCA regime for two reasons. On the one hand, they had to accept the federal tax base, the progressivity of the federal rate structure and the federal non-refundable credit block—a fact that limited their ability to tailor the taxes in their provinces in response to their particular social or economic situation. On the other hand, there was little

accountability on Revenue Canada's part to the provinces and territories for what it did on their behalf. This manifested itself in what they perceived as Revenue Canada's general lack of responsiveness on administrative issues of concern to them. The decision to create the Revenue Agency was intended by the federal government to address the second of the above issues—the intent being that as an agency more responsive to provincial needs and requirements, Revenue Canada would presumably be more accountable for the measures it administered for them. (The first issue above of provincial tax policy flexibility was addressed two years later when provinces were given considerably more autonomy and freedom to design their own tax measures).

In addition to the specific provincial concerns over tax policy and administration, the government also wanted to work collaboratively with provinces towards a more effective and efficient economic union. In this respect, the general view was that Revenue Canada had the potential to do even more for provinces, and that the Government wished to make its services available to them.

As the Minister of Finance noted in his Budget speech:

> "Government should be focused on the needs of citizens – not the needs of bureaucracy. Canadians want their governments to cooperate, not compete. And they want better service delivered at lower cost. One of the best ways to reduce cost is to reduce overlap and duplication. This was one of the goals inherent in our Program Review exercise led by the current President of the Treasury Board.
>
> ...what small business has not had the experience of a federal income tax auditor, followed by a federal sales tax auditor, followed by a provincial corporate tax auditor, followed by a provincial retail sales tax auditor – all asking for the same material organized in a slightly different way?
>
> This sort of duplication wastes businesses' time and government resources. We want to put an end to such waste. Therefore, legislation will be introduced that will allow for the creation of fewer, more effective government agencies. We will also create a national revenue agency to be called the Canada Revenue Commission. The creation of the commission will facilitate the development of a closer partnership with the provinces in revenue administration."

Governance Arrangements in the Canada Revenue Agency

Once the decision to create the revenue agency had been taken, the major issue for discussion and debate became the governance arrangements for the organization and, more specifically, the role of the Minister of National Revenue. As noted earlier, the ASD concept as practiced in some other countries frequently entailed a diminished role for Ministers, particularly where the provision of administrative or technical services were involved. This was markedly different from the situation then found in Canada. Federal tax and customs legislation in Canada vests virtually all authority and decision-making regarding administration of the legislation in the Minister of National Revenue. As a result, the Minister was named some 1,470 times in this program legislation; the Minister had the authority to issue all tax assessments, to seize files, to examine goods at the border, etc. Effectively the Minister,

rather than officials, was given full powers to implement all aspects of the program legislation.

For the efficient administration of the legislation, of course, almost all such authorities and powers were delegated to officials who exercised them on a daily basis. Indeed, in Canada there has been a long tradition that Ministers do not make decisions on individual tax or customs cases—those decisions are left to officials with technical expertise in the areas in question.

The point at issue was whether to continue with the current practice, leaving the Minister responsible and accountable for the program legislation, or whether to follow practices from elsewhere and leave the Minister with a much more diminished role. The government undertook a major consultation exercise to determine the views of major tax and customs stakeholders on the matter.

Interestingly, the view from all quarters was unanimous: they much preferred the traditional model with a Minister of National Revenue responsible for the program authorities in the legislation. Business representatives, for example, were of the view that, while officials generally operated in a professional manner, they liked the idea of the capacity to appeal to a Minister if they felt that justice and fairness had not prevailed in a particular instance. Members of Parliament were concerned that a more "arm's length" agency might become remote and dismissive of taxpayer concerns. Provincial and territorial Ministers were equally concerned with an "arm's length" agency, recognizing that if it were "arm's length" from the federal government, the Agency would be even more removed from them.

While the government decided that there would be no change with respect to the Minister's authority over the program legislation, it was prepared to countenance a degree of experimentation with other aspects of the legislation. This occurred with respect to the administrative authorities for the Agency.

To give the Revenue Agency more flexibility to achieve greater efficiency and effectiveness in its operations, the decision was made that the authorities for human resources and general administration, which were then vested with Treasury Board (TB), the Public Service Commission (PSC), and Public Works and Government Services Canada (PWGSC), would become the responsibility of the Agency. This was consistent with the ASD concept. It was also decided that a Board of Management of members appointed largely from outside government would be created to oversee the administration of these authorities.

The Board of Management was to serve two purposes: it would replace the oversight and control functions hitherto performed by TB, the PSC, and PWGSC, and it would strengthen the partnership with provinces and territories by giving them the right to nominate the majority of the Board members. The term "Board of Management" was chosen instead of the usual "Board of Directors" to more accurately reflect the Board's oversight responsibilities for the organization, administration, and management of the Agency.

The final element of the governance structure involved the creation of the position of Commissioner who would serve as Chief Executive Officer (CEO) of the Agency. The Commissioner would be the only public servant on the Board of Management.

It was this governance structure that formed the basis of Bill C-43, *An Act to establish the Canada Customs and Revenue Agency*, introduced into Parliament in June 1998 and assented to in April 1999.

Chapter II Implementing the Act

This chapter discusses the key provisions of the *Canada Customs and Revenue Agency Act* and what the Agency has done to implement them. It is divided into five parts coincident with the five main elements of the legislation:

- mandate and governance;
- accountabilities;
- partnerships;
- human resource authorities; and
- administrative authorities.

Each section discusses the general intent of the legislation, the specific statutory provisions and how the Agency has implemented them, and then assesses the overall significance of the legislative provisions for the organization.

Part A: Mandate and Governance

General Intent of the Legislation

Sections 4 to 46 of the legislation set out the mandate and governance structure of the Agency. As noted in Chapter I, it was decided that, as an ASD organization, the Agency should have a governance structure suited to its own unique role and responsibilities. This is reflected in the legislation that was passed by Parliament. Specifically the legislation sets out the following responsibilities:

- The Minister of National Revenue retains his traditional responsibilities for administration by the Agency of program legislation – that is, the taxing statutes such as the *Income Tax Act*, the GST legislation, and, before Customs was removed from the Agency, customs-related legislation.
- A Board of Management, nominated largely by the provinces, is responsible for overseeing the administrative authorities dealing with human resources, contracting, etc., that formerly belonged to TB, the PSC, and PWGSC.
- A Commissioner is the Chief Executive Officer and responsible for the day-to-day management and direction of the Agency. He is accountable to the Minister for the administration of the program legislation and to the Board of Management for the operation of the administrative and management authorities in the CCRA legislation.
- Provinces and territories are given a greater role in the Agency through their responsibility to nominate Board members.

The Agency

Statutory Provisions

Sections 4, 5, and 30 of the Act establish the Agency, determine its status, and set out its powers. The key provisions are:

- the Agency is an agent of Her Majesty, which means that its actions are those of the Government;
- it administers and enforces the program legislation; and
- it may enter into and implement agreements with other departments and agencies, federally and in the provinces and territories, and with Aboriginal governments, to administer taxes or other programs.

Section 30 provides the Agency with authority over its general administrative policy,

organization, real property, and personnel management. In respect of these matters, the Agency is not subject to Treasury Board requirements except for any requirements relating to financial management.

Implementation

The legislative provisions for the establishment, status, and mandate of the CRA are generally similar to those of a government department and are, as such, not particularly noteworthy. The Agency's mandate and status are, however, innovative in two respects: the provision for partnerships, specifically with provincial and territorial governments; and the provisions for the management of the Agency, notably the existence of the Board of Management and the Agency's special powers relating to human resources management. These innovations are discussed below in more detail.

The Minister Responsible

Statutory Provisions

Under the *Canada Customs and Revenue Agency Act*, the Minister of National Revenue is responsible for the Agency. Section 6 provides the Minister of National Revenue with the powers, duties, and functions necessary for the exercise of the Agency's mandate in respect of the program legislation. Accordingly, the same section explicitly provides that the Minister is responsible for the Agency. Sections 7 and 8 provide for the designation of officers to perform specific statutory functions and for the delegation of authority by the Minister and the Commissioner.

Sections 9, 10, and 12 enable the Minister (subject to conditions) to provide direction to those to whom ministerial powers have been delegated. Section 11 gives the Minister authority to issue written directions to the Agency's Board in respect of a matter that "affects public policy or could materially affect public finances." Section 13 provides the Minister with an explicit power of inquiry and access to any information under the control of the Agency. It should be noted that both sections 11 and 13 are fail-safe provisions designed to deal with extraordinary circumstances. As such, they are similar to provisions in other statutes such as those that relate to the power of direction over Crown corporations set out in the *Financial Administration Act*.

Implementation

The long-standing structure of ministerial responsibility for policy and administration of revenue matters was not affected by the creation of the Agency. The Minister of Finance is responsible for all aspects of tax policy. The Minister of National Revenue is responsible for the administration of the various statutes that give effect to those policies.

The Minister's role in respect of the Agency is generally similar to that of a minister heading a department, with two important qualifications. Although the Minister may issue a written direction to the Board on any matter affecting public policy or one that could materially affect public finances within the authority of the Board, the managerial supervision of the Agency is in the hands of the Board and the Commissioner, not the Minister. One of the key aspects about the governance of the Agency, however, is that the Minister retains full ministerial accountability; this means he is accountable and answerable in the House for all aspects of the Agency's operations and administration. The second qualification has to

do with the customary distancing of the Minister from the application of the program legislation to individuals and corporations. As noted in Chapter I, although the Minister will seek information in response to complaints from individuals and businesses, it is a longstanding practice that the Minister does not direct revenue officials on how to interpret the law in any individual case. This arrangement preserves the Minister's right to be informed while at the same time providing protection from allegations of political interference in taxpayers' affairs.

> The Minister retains full ministerial accountability and is accountable and answerable in the House for all aspects of the Agency's operations and administration.

The Agency's management authorities do, however, differentiate it from the former Department of National Revenue, as do the existence of a Board of Management and its impact on the management and direction of the Agency.

The status of the Minister under the Act has not resulted in any significant changes affecting the operations of the Agency. The Minister continues to provide broad direction to the Agency and approves Treasury Board submissions, including the Estimates and the annual Corporate Business Plan. Although the Board of Management plays a significant role in setting management policy, it has not proven necessary for the Minister to exercise the authority under section 11. Similarly, the Agency has complied with all ministerial requests for information in fulfilment of section 13.

The Board of Management

Statutory Provisions

The Board's mandate is limited to management matters.

Section 14 establishes a Board of Management for the Agency, consisting of 15 directors including its Chair, the Commissioner, two directors nominated by the federal government, a director nominated by each province, and one by the territories. Sections 15 to 19 establish the terms and conditions for the directors (other than the Chair and the Commissioner). They are selected and appointed by the Governor in Council to serve part-time, hold office during pleasure for terms of up to three years, and may be reappointed for up to two further terms, provided that, in the case of provincial and territorial members, their nomination is renewed (section 17).

Section 31 makes the Board "responsible for overseeing the organization and administration of the Agency and the management of its resources, services, property, personnel, and contracts." The Board makes by-laws for carrying out its duties. It may also provide the Minister with its advice about the general administration and enforcement of the program legislation (section 33). The Board's mandate is limited to management matters, and, for greater certainty, section 34 forbids the Board from issuing direction in respect of the program legislation including similar provincial legislation. Section 35 excludes the Board from access to information that is obtained under the program legislation.

Sections 42 to 46 impose duties of ethical conduct on the directors and set out the conditions that must apply to contracts with

the Agency in which directors may have a material interest.

The Board approves the Agency's Corporate Business Plan that is submitted to the Minister for recommendation to Treasury Board (section 47). The business plan must include a statement of the Agency's objectives; strategies to achieve them; operational, financial, and human resource strategies including their impact on overall salaries and benefits; its expected performance, operating, and capital budgets; and any other information that Treasury Board may require. After the plan is approved, the Agency is required to submit a summary of the plan to the Minister for approval to be tabled in Parliament (Section 49).

Implementation

The Board is a unique feature of the *Canada Customs and Revenue Agency Act*. It provides important advantages to the Agency in terms of provincial and regional perspectives on issues as well as private sector and practitioner expertise. The Board was fully operational when the Act was proclaimed, having met informally in late October 1999 to prepare a draft by-law to govern its day-to-day functioning.

> The Board is a unique feature of the *Canada Customs and Revenue Agency Act*.

In addition to the Chair and the Commissioner, 22 individuals have served on the Board since its creation in 1999. The nomination process involving the provinces and territories has resulted in 20 individuals appointed since 1999. The Board meets in-person four times a year as do its three committees, Governance, Finance, and Human Resources. Most of the detailed work is done at the committee level and approval is sought from the full Board. In addition to the quarterly in-person meetings, there are conference calls scheduled between those meetings, and a retreat of the Governance Committee is normally held in the spring. Other meetings and conference calls are held between the quarterly meetings as required. The overall cost of the Board is in the neighbourhood of $435,000 per year.

The Board has generally carried out its oversight management functions under Section 31. It has not sought to use its power under section 33 to make recommendations to the Minister concerning the administration of the program legislation. Members of the Board have diligently followed the provisions relating to possible conflicts of interest. In February 2000, the Board adopted conflict of interest guidelines. Each member signs a letter of certification that they have read the Principles of the Conflict of Interest and Post-Employment Code for Public Officer Holders, as well as the Board's guidelines.

The Board has been most active with respect to human resources and general administration and is actively involved in the development of the annual Corporate Business Plan. It has a strategic oversight role in respect of the organization and administration of the Agency and the management of its resources, leaving the Commissioner to fulfil responsibilities for day-to-day management and direction.

The Chair of the Board

Statutory Provisions

Section 22 provides that the Chair be appointed at pleasure for a term of up to five years, renewable once. The Chair presides at meetings

of the Board and exercises such functions as may be assigned through the bylaws established by the Board.

Implementation

The appointment of the first Chair, Mr. Michael Turcotte, was effective November 1, 1999, for a four year term, which was renewed for a further year, expiring October 31, 2004. The qualifications of the second chair, Ms. Connie Roveto, were reviewed by the Standing Committee on Finance. Her appointment became effective on March 16, 2005. The Chair meets regularly with the Commissioner and from time to time with the Minister, who usually meets annually with the Board for a general discussion.

The Commissioner

Statutory Provisions

Section 25 provides that the Commissioner of Customs and Revenue (now the Commissioner of Revenue) be appointed at pleasure for a term of up to five years, renewable. Section 26 makes similar provisions for the Deputy Commissioner, if one is appointed, whose duties are assigned by the Commissioner. These are full-time appointments (section 28).

Section 36 establishes the Commissioner as chief executive officer with responsibility for the day-to-day management and direction of the Agency. The Commissioner is generally required to support the Minister and more particularly to "keep the Minister informed of any matter that could affect public policy or that could materially affect public finances, and any other matter that the Minister considers necessary" (section 38).

Consultation, reports, and information must be provided to federal departments and agencies and provinces and territories for which the Agency is administering programs (sections 39 to 41).

Implementation

There have been three Commissioners appointed under the Act. Mr. Rob Wright, who was the last Deputy Minister of National Revenue, oversaw the transition to the new Agency. He served as Commissioner from November 1999 until June 2003, when he was succeeded by Mr. Alan Nymark. Mr. Michel Dorais, the current Commissioner, succeeded Mr. Nymark in December 2004.

The unique governance structure of the Agency with its particular roles and responsibilities accorded respectively to the Minister and the Board of Management in turn places unique responsibilities upon the Commissioner: he is accountable to the Minister for the administration of the program legislation and he is accountable to the Board for the administration of the human resource, financial, and administrative authorities contained in CRA's legislation. As a consequence, the Commissioner meets regularly with the Minister of National Revenue and ensures that the Minister is briefed on all matters affecting the role of the Agency. The Commissioner also meets regularly with the Chair of the Board and, as a member, attends all Board meetings.

> The Commissioner is accountable to the Minister for the administration of the program legislation and to the Board for the administration of the human resource, financial, and administrative authorities.

The Commissioner has special responsibilities for the smooth operation of the Agency's partnerships with other federal ministers and provincial and territorial ministers for whom the Agency administers programs.

Assessment of the Governance Regime

In passing the *Canada Customs and Revenue Agency Act* in 1999, Parliament gave its approval for an experiment in ASD governance that is unique in Canada, if not in other parliamentary democracies. It is fair to say that the governance arrangements described above have served the Agency, and through it, the Canadian people, extremely well. The main players – the Minister, Board of Management, and Commissioner – have all been diligent in fully carrying out their roles in a professional manner while respecting the roles of the other two players. The arrangement has worked smoothly and very effectively. Indeed, in 2003 the Agency commissioned a study of its governance regime by the Public Policy Forum (PPF). Following an extensive set of interviews and roundtables with stakeholders, the PPF noted:

> "It was widely considered in the interviews that CRA's move to ASD agency status represents an important innovation in Canadian public sector management and that the establishment of the CRA has been a success, due in no small part to its new governance regime. Although the institutions and management culture of CRA are still maturing, there was no suggestion that the move from departmental to Agency status should be reversed."

Clearly, the single most important innovation in CRA governance has been the establishment of the Board of Management. The Board's sphere of responsibility extends to overseeing the organization and administration of the Agency and the management of its resources, services, property, personnel, and contracts. Its name speaks to its role – it was not created as a Board of Directors and it does not direct the implementation of the Agency's program legislation. Within its sphere of responsibility, however, its impact and influence have been important.

It has brought an external, private sector perspective to its work and a healthy challenge role to senior management that has made the Agency both more responsive to Canadians and Canadian business and more entrepreneurial and efficient in its management and administration. The Board has overseen and driven the wide-ranging overhaul and modernization of the HR and administration areas that are discussed later in this chapter. It has brought about a stronger, results-based accountability regime for managers. It has instituted a Corporate Business Plan and Annual Report that are considered models in the public service. These measures in turn have set the groundwork for the business achievements that are described later in this report.

Part B: Accountabilities

General Intent of the Legislation

One of the primary objectives in developing the legislation for the Canada Revenue Agency was to ensure there was no diminished level of accountability to Parliament as an agency than there was under Revenue Canada. The legislation, therefore, contains the normal reporting requirements so that Parliament can oversee the expenditure of public funds and hold the appropriate authorities accountable. But, in addition, it was deemed important to include additional provisions for accountability to reflect both the special powers exercised by the Agency and the increased level of accountability to provinces and territories.

Accountability to Parliament

Statutory Provisions

The Minister is responsible for the Agency in accordance with the normal statutory and conventional requirements of responsible government. He is accountable to Parliament for the administration of the program legislation and answerable to Parliament for the activities of the Board of Management, as any minister is for the activities of an arm's length body.

In financial matters, the Agency is subject to the *Financial Administration Act* with respect to appropriations. Under the *Financial Administration Act*, it must also table two estimates documents that are the principal instruments of accountability applying to any government department – the report on plans and priorities and the departmental performance report. However, under sections 47-49 and 88 of the Agency's legislation, the Minister must also submit two additional accountability documents to Parliament – the Corporate Business Plan and the Annual Report. The Annual Report is to deal with the operations of the Agency for the preceding year. It must also include the financial statements of the Agency and information on the Agency's performance with respect to the objectives set out in the Corporate Business Plan.

Section 87 appoints the Auditor General as auditor of the Agency with the requirement that she audit its financial statements and report findings to the Minister and the Agency. The Auditor General's opinion on the financial statements is also to be included in the Annual Report, as is her assessment of the fairness and reliability of performance information contained in the Annual Report.

The Agency is also subject to additional provisions for accountability that reflect the special powers exercised by the Agency. Section 56 requires the Public Service Commission to report on the consistency of the Agency's staffing program with the principles set out in its Corporate Business Plan. The PSC is also required to periodically review the compatibility of the principles governing the Agency's staffing program with those in the rest of the public service. Section 59 requires that every three years the Agency must have an independent third party undertake an assessment of and report on its recourse system.

Implementation

The Agency has taken seriously its accountability obligations under the *Financial Administration Act* and its own legislation. It has strived to ensure the accountability provisions of the legislation have not only been fully met, but that Agency reporting would become second to none. The Annual Report to Parliament is widely

recognized (including by the Auditor General), as an innovative reporting and accountability tool, a report card in effect, that goes beyond the traditional reporting to Parliament. The Auditor General has recognized Agency efforts to improve public sector performance reporting, and the use of performance report cards is being adopted by all government departments. The Agency is committed to being fully transparent about both successes and shortcomings, and strives to provide a report that is balanced and results-focused.

> The Annual Report to Parliament is widely recognized as an innovative reporting and accountability tool.

Since the Agency's creation, CRA management has also taken a number of steps to improve performance measurement and reporting. In support of this, it has developed an automated Performance Measurement Program System (PMPS). The system entails a customized set of measures and indicators that are being tailored to define performance in the CRA context and suit its business and management needs. The PMPS is currently capturing quarterly performance information for in-year reports against performance expectations, which, in turn, serves the performance information requirements of the Annual Report. The performance measurement framework has also been adapted to respond to the new Government-wide Program Activity Architecture system.

The establishment of annual performance agreements for executives and senior managers also translates the formal external accountability process into personal accountability for the attainment of Corporate Business Plan priorities and deliverables. Through these commitments, corporate and government priorities are cascaded from the Commissioner to the executive cadre down to the front-line managers and across the Agency.

Accountability to Provinces and Territories

Statutory Provisions

In order to strengthen the accountability of the Agency to the provinces and territories on whose behalf it carries out specific functions, the legislation contains provisions imposing special duties and responsibilities on the Commissioner. Section 40 requires the Commissioner to provide provinces with the information they need to evaluate the tax, program, or activity that the Agency administers on their behalf. It also obliges the Commissioner to alert a province to matters that could have an impact on the province's tax, program, or activity that is administered by the Agency.

Section 41 requires the Commissioner to submit an annual report to each province on whose behalf it administers an activity and to offer to meet each provincial Minister annually to obtain their views and recommendations of the Agency's administration.

Implementation

The Commissioner has fully met all the above requirements. There is an active flow of information to provinces within the confines of the confidentiality provisions of the respective program legislation and the *Privacy Act*. There have been 5 sets of annual reports provided to provinces since the establishment of the Agency and the Commissioner has met annually with

provincial Ministers or their delegates to discuss results, plans, and priorities.

Assessment of the Accountability Provisions

The accountability provisions in the legislation have had their desired effect. The various Agency accountability mechanisms have been strengthened and improved since the creation of the Agency. The CRA's Annual Report and Corporate Business Plan have helped to transform how the Agency thinks about its accountability as an Agency to Parliament and how it measures its performance, manages it, and reports on it. Because of the requirement to report on actual performance against the objectives and expected performance established in the Corporate Business Plan, the Agency now reports on results consistently across the scope of its varied programs and in ways that are more meaningful. As an organization, the Agency has become more conscious of how its operations and the practical results achieved affect the social and economic well-being of Canadians. This is a significant and continuing cultural change.

In addition, the Corporate Business Plan and the Annual Report have had a positive impact on the management of the Agency and its accountability to those it serves. A strengthening of the corporate planning process has contributed to improved direction-setting and a broad-based understanding and follow-through of the Agency's strategic agenda by managers. As well, managers generally understand and support the Agency's accountability framework, including the Annual Report and accountability contracts, which in their view is more transparent and has created clear links throughout the accountability chain.

The increased attention of, and the broader role for, the Auditor General in the Agency has also had beneficial effects. It has resulted in a close new working relationship between the Office of the Auditor General and the Agency, including the Board of Management, especially its Finance Committee. As an example, the Auditor General now has an "in camera" session with this Committee on an annual basis.

The accountability mechanisms in the legislation pertaining to provinces have also resulted in a significantly closer working relationship between the Agency and the provinces. (This is further discussed in the next section of the report.)

Observations of the Auditor General on CRA Governance and Accountabilities

The Auditor General recently provided the CRA with several comments on aspects of its governance and accountability regime. She stated that while she had not undertaken an assessment or audit of the governance regime since its inception, her office had looked at different parts of the overall regime during the course of their various audits. She offered the following comments:

Agency Reporting

"... the annual reports have provided a better performance story than was previously presented in the former Revenue Canada's departmental performance reports...The nature, quality and relevance of financial information being provided by the Agency have continually improved since the former department became an Agency." .../

Observations of the Auditor General on CRA Governance and Accountabilities (cont'd)

Board of Management

"As part of our financial audit responsibilities, we have had an opportunity to participate to a limited extent, in the workings of a new Board of Management governance structure, and in particular with the finance subcommittee. Based on our limited involvement to date, we believe the existence of the Board further strengthens the governance structure of the Agency and in our view appears to be working well in practice."

Relationship with the Provinces

"In my view, the accountability mechanisms being proposed as part of the new tax collection agreements have the potential to provide a significant improvement in the service to, and related accountability of, the Agency to the provinces. As a result, the overall governance structure related to CRA as a service provider will be strengthened."

Conclusion by OAG regarding Governance regime

"Overall, we believe that the mechanisms for credible reporting of results are in place and functioning as expected, and that an appropriate external audit regime is in place at the Agency. Furthermore, we have no reason to believe that the Agency's accountability regime does not retain the principles of parliamentary and ministerial oversight, or that Parliament cannot hold the Minister to account."

Letter from Sheila Fraser, FCA, Auditor General of Canada to
Alan Nymark, Commissioner, CRA, dated September 15, 2004

Part C: Partnerships

General Intent of the Legislation

The CRA is essentially an organization serving the interests of other authorities through the administration of their legislation, programs, or activities. As such, the CRA's legislation makes provisions for the partnerships between the Agency and these other authorities.

Section 5 of the Act gives the CRA the authority to implement agreements with, and administer programs for provinces, territories, other federal agencies and departments, and Aboriginal governments. Sections 39 to 41 require the provision of information to such partners and introduce certain elements of accountability to these entities. Sections 61 to 63 permit the CRA to enter into contracts and agreements with provinces or territories, including agreements to administer taxes and other fiscal measures.

Other Federal Departments and Agencies

Statutory Provisions

Paragraph 5(1)(c) provides for agreements between other federal agencies and departments and the CRA "to carry out an activity or administer a program." Section 39 requires the CRA to provide information to permit such partners to evaluate and make policy in relation to the programs administered by the CRA under these agreements, and to consult with partners on "matters that could have a significant impact on the program or activity."

Implementation

Prior to the transfer of its customs function to the Canada Border Services Agency, the CRA had 105 agreements in place with other federal agencies and departments. The reformed CRA retains responsibility for 63 of those agreements, the largest of which concerns the administration of elements of the Canada Pension Plan and the Employment Insurance Program in conjunction with Human Resources and Skills Development Canada and Social Development Canada. A list of agreements with other government departments and agencies is attached as Annex A.

The CRA has agreements with many departments and agencies, 31 of which have been concluded or significantly updated since 1999: for example, the Office of the Superintendent of Financial Institutions Canada (2001 agreement to harmonize returns provided by pension administrators); Public Works and Government Services Canada (2002 agreement to use the CRA's Business Number system for registering possible suppliers for federal procurement); the Royal Canadian Mounted Police (2003 agreement for the designation of certain CRA investigators as peace officers); Correctional Service Canada (2001 agreement relating to the tax status of inmates); and Statistics Canada (2003 consolidated agreement that recognizes the breadth of information provided by the CRA for statistical purposes).

It should be noted that while the Department of Finance is the Agency's major client within the federal government, unlike the above examples, the Agency does not have a formal agreement for the administration of Finance's legislation. This is because the tax legislation for which the Minister of Finance is responsible, such as the *Income Tax Act* and the GST legislation, specifically make the Minister of National Revenue responsible for their administration and enforcement.

Provincial and Territorial Governments

Statutory Provisions

Paragraph 5(1)(b) permits the CRA to implement agreements with provincial and territorial governments "to carry out an activity or administer a tax or program." Section 14 provides for each province to nominate a director and for one director to be nominated by the territories. Sections 61 to 63 give the CRA authority to enter into contracts and agreements with provinces on behalf of the Crown, subject to the CRA following both the guidelines established by federal and provincial ministers of finance and the procedures agreed to by the federal Ministers of National Revenue and Finance, when those agreements involve tax and other fiscal measures.

Implementation

As mentioned earlier, one of the Government's primary objectives in putting the Agency in place was to develop a closer and more accountable relationship with provinces and territories. The implementation of the above statutory provisions was, therefore, vitally important, and it became a top priority for the Agency.

However, some background is necessary to put the Agency's accomplishments in this area into context. On the start-up day for the Agency, it already was performing a significant amount of work on behalf of provinces and territories, more than any other federal institution. It administered:

- personal income tax for 9 provinces and the territories;
- corporate income tax for 7 provinces and the territories;
- a harmonized sales tax for 3 Atlantic provinces; and
- a variety of benefit, tax, and income-verification related programs for different provinces.

The Agency is clearly vital to both levels of government: it administers 84% of all income taxes in Canada (federal, provincial/territorial – both personal and corporate). For Nova Scotia alone, for example, the Agency is responsible for 80% of its total revenues.

In order to improve and solidify its relationship with the provinces and territories, the Agency endeavoured to negotiate service management framework agreements (SMF) that govern the overall relationship between a province and the Agency. Among other things, they provide for the establishment of a joint senior management committee in which senior provincial and Agency officials meet on a regular basis to discuss current issues and concerns and to provide updates on program initiatives. SMF agreements were signed with all provinces and territories except Quebec and Ontario.

The Agency's endeavours have resulted in a closer, collaborative working relationship in a number of areas. For example, it has formed partnerships with six provinces to enable joint business registration. This allows businesses to register electronically from one location for programs they most commonly need in different jurisdictions and to obtain a common Business Number (as a common identifier). There are significant advantages for businesses in reduced effort and, therefore, reduced cost in meeting government requirements. The Agency and the Department of Finance are currently working with the province of Ontario to assess the feasibility of administering the Ontario corporate tax, an initiative strongly supported by the Ontario business community since it would reduce the compliance burden and result in a more streamlined and less costly administration of provincial taxes.

The Agency has entered into an agreement with the Nova Scotia Workers' Compensation Board (WCB) that allows employers in the province to pay their WCB premiums using the same payment dates, frequencies, and payment methods they use to make their CRA payroll deductions – another major benefit for business. An agreement with the Nova Scotia Department of Agriculture and Fisheries holds similar benefits for business by providing for mutual co-operation in the auditing of books and records of licensed fish buyers.

The Agency's involvement in the administration of benefit and other programs for provinces and territories has also expanded since its creation. The Agency has progressed from administering 15 child benefit and credit programs for provinces in 1999 to 17 in 2004, involving over $400 million in payments annually. Partnerships were formed with four provinces to deliver specialized one-time payment programs, such as the BC Energy Rebate, that were customized to meet the needs of each province. These programs involved issuing high volumes of income-tested payments accurately, on time, and on a cost-effective basis. The Agency was able to do this by using the delivery infrastructure developed originally for the federal program. The Agency also implemented new income verification agreements with four provinces to enable electronic data exchange over a secure

network to streamline the delivery of 11 provincial benefit programs. This arrangement allowed the CRA's provincial and territorial partners to better serve over 5.5 million of their citizens, particularly seniors, students, and lower-income families who apply for provincial/territorial income-tested programs. It also reduced the administration costs of the provincial and territorial governments involved.

Negotiations for agreements covering an additional 16 programs in seven provinces are currently underway. A comprehensive list of CRA's agreements is attached as Annex B.

The new partnership with provinces was also demonstrated in the work the Agency undertook with all provinces to implement the Tax on Income (TONI) initiative that was negotiated by the Department of Finance with the provinces in 1998. Under TONI, provinces are able to set provincial income tax rates independently on taxable income, rather than being limited to a percentage of basic federal tax, as they were previously. This allowed them to set their own tax brackets and tax rates, modify existing non-refundable tax credits, and introduce any number of non-refundable credits.

Provinces were quick to take advantage of the opportunities TONI offered and have introduced a number of measures to tailor their tax systems to their particular needs and circumstances. While this resulted in greater flexibility for provinces, it added significant complexity to the existing tax delivery program. However, the Agency met the challenge through a major system and program re-engineering project that allowed the implementation of TONI at a pace chosen by the provinces. It exemplifies how the Agency was able to leverage its expertise to avoid cost increases and the additional increased complexity that would have resulted had provinces been required to create their own delivery mechanisms.

First Nations

Statutory Provisions

Paragraph 5(1)(d) authorizes the CRA to implement "agreements between the Government of Canada and an Aboriginal government to administer a tax".

Implementation

The creation of the CRA occurred at a time when the Government of Canada was looking at new ways of working with First Nations from a taxation and self-government standpoint. Picking up on recommendations from the *Royal Commission on Aboriginal Peoples*, the Government began examining how to allow First Nations to take up sales tax and income tax powers in a manner that would easily integrate into the existing tax system and assist Indian Bands and Self-Governing First Nations in accessing new revenue streams. This resulted in several innovative arrangements being put in place where bands enter into an agreement that provide for the collection of sales tax on alcohol, tobacco, and fuel products on reserve; the imposition of income tax on persons who declare residency on settlement lands of participating Self-Governing First Nations; or the imposition of a GST-like tax on reserve or settlement lands. Under these arrangements, the Agency administers the taxes for the aboriginal government and the revenue is effectively returned to the aboriginal government by the Department of Finance.

A number of aboriginal governments have entered into agreements with Canada

(represented by the Department of Finance) to implement the new arrangements. At the time this report was prepared, the Agency was administering:

- Ten agreements for collection of First Nations Sales Tax;
- Nine agreements with Yukon Self-Governing First Nations for collection of GST; and
- Nine agreements with Yukon Self-Governing First Nations for collection of personal income tax.

Administering agreements to collect taxes on behalf of First Nations has been a growing part of the CRA's mandate and will undoubtedly continue to be so in the future. A complete list of agreements with First Nations for the collection of taxes is attached as Annex C.

In addition to meeting the strict requirements of the CRA legislation, the Agency has endeavoured to extend its partnership with First Nations peoples and Indian bands into other areas as well.

In recognition of the historic relationship between Indians and their reserves, the *Indian Act* contains provisions establishing rules for the way some First Nations peoples on reserve, those with an Indian Status under the *Indian Act*, are to be treated under the tax laws. These rules, however, were laid down in the 19th century and did not anticipate the variety of circumstances facing Status Indians today. It has frequently been argued by Status Indians that it is difficult to determine how the tax laws may or may not apply to their particular circumstances. Additionally, many Aboriginal people hold strongly to a belief that the tax system should not apply to them. These views have resulted in a history of tax disputes with the CRA over the scope of the *Indian Act* tax provisions.

Over the past five years, the Agency has made a concerted effort to work with First Nations peoples to provide more clarity and assistance to them. With the help of the Assembly of First Nations, the Agency created a Web site in 2003 devoted to First Nations tax issues. It explains the unique tax provisions applying to Status Indians, when applicable, enables them to correctly calculate their taxes, and also instructs them how to apply for benefits. In addition to the Web site, the Agency has undertaken an active outreach program with Indian bands which covers everything from tax clinics on reserve, to on-reserve community volunteer tax program sessions, to working with band administrators on tax refund applications, to town hall meetings that explain how to apply for the Canada Child Tax Benefit and GST credit. The Agency also recently established a First Nations Advisory Committee to create a forum for ongoing discussion of the special taxation issues facing Status Indians.

The particular efforts the Agency has undertaken on behalf of First Nations are perhaps best typified by a project involving Aboriginals and the Canada Pension Plan. The CRA became aware that some First Nations people were having CPP deducted from their salary, but that the amount was inadvertently not being reported to HRDC by their employers and, as a result, they were not receiving full credit for pensionable earnings. Through the efforts of the Agency, over 22,000 Status Indians were given credit for their payments to CPP.

Assessment of the Partnership Provisions

There is no question that the Agency's relationships with its key partners – provinces and territories, other federal ministries and

agencies, and First Nations – improved during the first five years of the Agency's existence. The provisions in the legislation relating to these partners stimulated the Agency to undertake special programs and put in place measures to meet their particular needs and requirements.

In the case of provinces and territories in particular, the work the Agency has undertaken, combined with the increased accountability to them described earlier, have resulted in a stronger working relationship. The provinces and territories themselves acknowledge the advancements that have been made in this regard. In 2004, the Agency engaged the Public Policy Forum to undertake a study of the state of the Agency's relationship with the provinces. While the provinces suggest that there are areas of the relationship that require further attention, they readily acknowledge that the relationship is on a different and better footing than it was before the Agency was created.

Report of the Public Policy Forum July 2004

As part of the process in preparing this report, the Public Policy Forum (PPF) was engaged to evaluate the state of the relationship between the CRA and provincial and territorial governments, the achievements made in the relationship since the transition to agency status, and the opportunities for further improvements.

The PPF conducted interviews with thirteen provincial and territorial governments and, in addition, solicited the views of knowledgeable, independent experts (academics, tax professionals, former politicians, and government officials).

The provincial and territorial governments gave the Agency an "over-all positive rating". They emphasized the importance, depth, and strength of their relationship with the CRA, noting a significant and continuous progress since the CRA was created that has resulted in an overall healthy environment. The CRA's staff and the Agency were generally viewed as "more service oriented, accessible, professional" than prior to creation of the Agency.

The provincial and territorial governments consider the CRA's Annual Reports to their governments as an important innovation, useful for briefing Ministers and informing the public. The personal contact and interest of the Commissioner's visits are appreciated and seen as setting the tone for day-to-day interaction. Provincial officials did make the point that these Annual Reports could be better linked to the business planning process in the provinces and territories.

The tax experts consulted by the Public Policy Forum generally echoed the views of the provincial and territorial governments. They too view the CRA in mostly favourable terms, considering the Agency "an important new national institution and a considerable success, worthy of celebration". They urged, however, the provinces and the Agency to continue to work together to reduce the cost to business of complying with tax laws.

The Agency's relationship with provinces, in their opinion, is improved with a better structure for problem solving and for accountability. The PPF report concludes: "The status given to provinces within the CRA…has led to a significant improvement in the relationship between the CRA and the provinces". .../

Report of the Public Policy Forum July 2004 (cont'd)

In the opinion of the tax specialists, the major positive change at the CRA has been psychological and not structural. They see a new attitude at the CRA with the Agency "now more focused on provinces and taxpayer needs and more confident". The CRA is perceived as treating the provinces "more respectfully, openly, and professionally". The tax professionals share the provinces' opinion of the CRA's staff as now more professional, focused, and better motivated than prior to establishment of the Agency, but also see staff as more aggressive in revenue assessment.

Both the provinces and the tax experts observed that, despite the headway that had been made, there were still challenges to be faced in the relationship. Amongst these was the need for the CRA to better anticipate the political and program needs of provincial governments and to place as much weight on their interests and needs as it does for the federal government. They also looked to further improvements and alignment of shared management instruments such as Annual Reports and performance measurement. They believed there needed to be better communication and advance notice of major systems problems or changes if they have an impact on their revenue streams.

While the Agency has not formally evaluated its relationship with federal departments and agencies or with First Nations, informal feedback it has received would suggest that these partners believe the relationship has been valuable to them as well. The wide range of agreements the Agency has signed with these partners stands as a testament to this effect.

Part D: HR Authorities

General Intent of the Legislation

In 1999, Treasury Board, acting under the authority of the *Financial Administration Act* and the *Public Service Staff Relations Act*, was responsible for the human resources management framework governing federal departments. This included authority for the organization and classification of jobs, compensation, collective bargaining, terms and conditions of employment, policies covering most aspects of human resources management, and related delegation instruments and recourse except in the areas of recruitment and staffing. Treasury Board also set the framework for human resources data management and, with Public Works and Government Services Canada, prescribed the requirements for pay administration. In addition, Treasury Board provided general direction in the area of human resources planning. As a government department, all of these provisions applied to the former Department of National Revenue.

The Public Service Commission of Canada, operating under the *Public Service Employment Act*, set the requirements for external recruitment and internal staffing and managed the system of recourse related to staffing matters. The Commission had responsibility for executive resourcing and shared responsibilities with the Leadership Network and the Canadian Centre for Management Development for the development of executives.

The *Canada Customs and Revenue Agency Act* set aside all of this and, in some of the most important provisions in the legislation, allowed for the creation of a tailor-made human resources management regime. These provisions underpin the CRA's ability to provide responsive, innovative service that address the particular

requirements of administering the Agency's program legislation as well as the special work-related needs of its employees. Note, however, that the CRA—like the former Department of National Revenue—continues to be subject to the *Official Languages Act*, the *Employment Equity Act*, the *Access to Information Act*, the *Privacy Act*, the *Canadian Human Rights Act*, and Part II of the Canada Labour Code dealing with health and safety.

General Human Resource Authorities

Statutory Provisions

Section 50 of the *Canada Customs and Revenue Agency Act* designates the CRA as a "separate employer" under the *Public Service Staff Relations Act*. Section 51 gives the CRA general powers of personnel management and the authority to determine terms and conditions of employment. The same section details the authority of the CRA to determine its personnel requirements and allocate and determine the use of its human resources; to set requirements for training and development; to classify jobs and employees; to determine pay, hours of work, and leave; to provide awards for outstanding performance and meritorious achievement; to establish standards of discipline and related processes including penalties such as suspension and termination of employment; and to determine reimbursements for travel and other expenses.

Implementation

Immediately on proclamation of the Act, the Commissioner assumed full responsibility for the organization and classification of jobs at all levels and for establishing the recruitment and staffing programs and policies, and a staffing recourse system. The Agency also assumed the separate employer role with respect to collective bargaining, staff relations, and compensation matters. The transfer of employees went smoothly and without disruption to daily operations. The CRA also immediately implemented transitional human resources policies and processes approved by the Board of Management. CRA implemented a new Agency Learning Strategy. These policies have been reviewed, updated, and approved by the Board of Management, as required, and have served the Agency well.

Immediately on proclamation of the Act, the Commissioner assumed full responsibility for the organization and classification of jobs and for establishing the recruitment and staffing programs and policies, and a staffing recourse system. The Agency assumed the separate employer role with respect to collective bargaining, staff relations, and compensation matters.

Some of the more salient of the policies and actions that have been approved by the Board of Management to implement the above statutory authorities are described below.

Classification Reform

Using its new classification authorities, the CRA immediately took action to begin designing a classification system to better suit its business requirements. As a first step towards a reformed classification system, the Board of Management approved the new Agency occupational group structure in March 2000. Once fully implemented, this will result in a reduction in

the number of occupational groups from 32 Treasury Board Secretariat groups to 7 groups in the Agency. The full implementation of the framework is a multi-year undertaking involving consultations with major stakeholders, including senior management and employee representatives (Public Service Alliance of Canada (PSAC), Union of Taxation Employees component (UTE), PSAC Customs Excise Union Douanes Accise component (CEUDA) and The Professional Institute of the Public Service of Canada (PIPSC)) and continues to be a work in progress.

As part of this framework, the CRA implemented in March 2002 the Management/Gestion (MG) Group for supervisory and managerial jobs. This classification effort represented a major initiative on the part of the Agency. Given the size of the Agency's workforce and the managerial challenges it faces on a daily basis, the implementation of the new Management group was designed to underscore the important role managers carry out as team leaders and change agents in the context of providing service to Canadians. The MG Group integrated jobs from 19 occupational groups into a single cohesive network of some 3,000 managers. In 2003, the Agency initiated the development of a new classification standard for the Program Delivery and Administrative Service (SP) occupational group, which covers approximately 75% of CRA employees. However, the work has been temporarily put on hold as a result of the departure of Customs to the new Canada Border Services Agency. The review of the classification standards for some of the other CRA groups will also be undertaken as part of the Agency's long-term classification reform plan.

The Agency also restructured the Executive group (EX) to include a new level of Senior Management (SM) to which 227 positions were converted on March 1, 2001. With the largest information technology (IT) community in the Public Service, the CRA faced unique managerial challenges and introduced a distinct EX-1-IT classification level in order to address long-standing classification anomalies.

As of March 31, 2004, there were 289 EX positions, 45 EX-1-IT positions, and 161 SM positions for a total of 495 jobs in the Executive cadre, which is 1.12% of the employee population of 44,300 during peak periods of operation. It should be noted that the CRA has one EX for every 129 employees, compared with the Public Service average of one EX for every 39 employees.

Performance Management and Accountability

In assuming its new HR authorities, the CRA recognized that it had to establish an environment promoting strong accountability for the management of human resources and the corporate values of integrity, professionalism, respect, and co-operation.

Accordingly, in April 2000, the Employee Performance Management policy was approved by the Board of Management. The policy's objective is to support and strengthen organizational and individual performance, through the establishment of performance expectations, the identification of measurement criteria, the provision of performance feedback, and the development of action plans to address performance issues when necessary. The approach links the performance expectations of managers and employees to the corporate mandate, organizational objectives, and business and work plans. As the program takes root, performance management is being progressively linked to specific job competencies.

In recognition of the significant management challenges facing the Agency, the Board of Management modified the Pay at Risk program of the core Public Service to include additional pay at risk of up to 5% based on "effective people management" for all EX and SM group members. Performance pay or leave to reward "effective people management" was also introduced for the Management Group through collective bargaining.

Some 33,000 performance assessments are now completed for the workforce annually excluding newly appointed employees, those on leave, and terms under three months. Learning is also linked to the performance management process. As of 2004, over 30,000 managers and employees had individual learning plans.

In 2000, the Board of Management also introduced a new, non-monetary recognition approach, which decentralizes the delivery of employee recognition closer to the working level and allows managers and employees to acknowledge significant achievements made by Agency employees.

Staffing and Recourse

Statutory Provisions

Section 53 gives the CRA, in the person of the Commissioner, the exclusive right to appoint employees. Under section 54, the CRA is required to develop a program to govern staffing, including the appointment of, and recourse for, employees. The section excludes staffing from the collective bargaining process.

Implementation

Staffing

The Board of Management approved staffing principles, policies, and programs as part of the package of CRA policies that went into effect the moment the CRA was established in November 1999. They replaced the staffing principles, policies, and programs that operated under the aegis of Treasury Board and the Public Service Commission. The principles, which were developed with the involvement of the staff of the Public Service Commission, embrace the concepts of representativeness, transparency, competency, fairness, efficiency, adaptability to particular organizational needs (for example, evolving mandates, new program responsibilities), productivity (in the sense of placing the right number of competent people in jobs necessary for the successful functioning of the CRA), and non-partisanship (employee conduct and staffing activities that are free of political or bureaucratic influence). The Staffing Program and the Staffing Delegation and Accountability Agreement that were put in place ensure that staffing is conducted in accordance with the Agency's staffing principles and values. In turn, the principles are reinforced within the Code of Ethics and Conduct that was also approved by the Board.

> The staffing principles, which were developed with the involvement of the staff of the Public Service Commission, embrace the concepts of representativeness, transparency, competency, fairness, efficiency, adaptability, productivity, and non-partisanship.

The CRA has endorsed the concept of competencies as the pivotal principle and common denominator for ensuring the right people are in the right job at the right time to deliver quality services to Canadians. Selection decisions are also based on competencies. A catalogue of required competencies was developed with significant input from managers, employees, and HR specialists to ensure their relevancy to business requirements. The Board of Management approved the CRA's competency policy in March 2002.

The CRA has also introduced pre-qualification processes in staffing to establish pools of employees who have met the competencies of CRA jobs, paving the way for increased efficiency in staffing. The competency assessment results for employees that are obtained through pre-qualification processes are portable and durable for ongoing use in staffing. As the number of pre-assessed and pre-qualified employees grows, selection processes are taking less time. In building its pre-qualified process, the CRA is placing emphasis on the most frequently staffed positions where efficiency gains will have the most impact, for example, auditing, programme administration, and information technology jobs. Once the pre-qualification process has reached full maturity, competency assessment results will be fully integrated with performance management, the identification of training and learning needs, and job and career management.

At the Executive group and Senior Management levels, where there are 220 candidates prequalified for appointment at a higher level, this approach has dramatically reduced the time key leadership positions remain vacant. Since January 2000, the percentage of Executive group selections completed in less than three months has almost doubled, and there are routine examples of appointments completed within 28 to 35 calendar days – a major improvement in the time such appointments took under pre-Agency status.

Staffing Recourse

Section 54 of the *CCRA Act* authorizes the Agency to develop a staffing recourse program for employees. As of November 1, 1999, the CRA introduced a new program predicated on a more active and participative role for managers and employees. Its objectives were to provide the opportunity for individuals to raise concerns and have them addressed or corrected in a timely manner and to ensure that individuals have access to feedback on their developmental needs.

There are three forms of recourse available depending on the nature and the significance of the staffing decision in question: individual feedback, decision review, or an independent third party review. Proactive dialogue between management and employees is promoted as key to resolving problems as close as possible to the parties involved. The CRA's recourse approach strikes a balance between rights-based and interest-based approaches to resolving complaints and is supported by the alternative dispute resolution training provided to managers and employees. The Agency's competency framework provides a common language for the parties to use in discussing selection requirements.

As a result of this new process, staffing recourse has been transformed from an adversarial and defensive process into one where openness and dispute resolution practices predominate. This has had a positive effect on the time spent on recourse within the Agency. Prior to 1999, the

average time to complete an internal competitive process was 166 days excluding recourse. Recourse could frequently add anywhere from 3 to 12 months to the selection process due to the size of CRA's competitions, the number and complexity of selection processes being managed, and the scheduling of related appeal process activities.

In the first year of the Agency, the time to staff a position through internal staffing (including recourse) was reduced by 33% and by 20% for external staffing. Since November 1, 1999, there have been only 211 requests for independent third party review of Agency staffing decisions. This equates to 1.3% of placement decisions.

Staffing and Recourse Accountability

Statutory Provisions

Section 55 provides mobility rights between the CRA and the Public Service both to Agency employees and to public servants under the *Public Service Employment Act* (PSEA). It also provides for the Public Service Commission, in consultation with Treasury Board, to set terms and conditions on the mobility of Agency employees to positions under the PSEA if it determines, in exercising its Section 56 authorities, that the principles governing the Agency's staffing program are incompatible with those under the PSEA.

Section 59 requires that after its first three years of operation, and periodically after that, the CRA commission an independent assessment of its recourse measures and publish a summary of that assessment in its annual report to Parliament.

Implementation

The Public Service Commission and Treasury Board have not found it necessary to exercise the authority set out in Section 55, that relates to deployments. As a result, Agency employees continue to have mobility for the purposes of appointments and deployments within the wider public service. In its annual reports to Parliament, the PSC has reported positively on the Agency's staffing principles, their compatibility with these under the PSEA, and their application.

As required under section 59, the Agency commissioned an independent external auditing firm, Deloitte & Touche, to complete an assessment of recourse mechanisms it has implemented. The resulting report concluded that "Staffing has struck a reasonable balance between efficiency and fairness in its process".

In addition, the report stated that the recourse system the Agency had put in place represents a best practice as it supplements existing rights to recourse with optional avenues that are often more cost-effective and that can have the effect of resolving more fundamental, underlying problems than is typically the case with traditional rights-based recourse.

Labour Relations and Collective Bargaining

Statutory Provisions

Section 58 gives the CRA exclusive right to establish collective agreements with bargaining units made up of CRA employees, but it is required first to consult with Treasury Board on its human resources plan, including the "total increases in employee salaries or benefits."

Implementation

When the Agency came into being, existing benefits and the pension plan continued, and the CRA adopted most of Treasury Board and Revenue Canada staff relations and compensation administrative policies until such time as they could be reviewed to reflect the values and principles of the new Agency.

However, separate employer status meant that some 25 National Joint Council directives covering topics such as health and safety, travel and relocation, and the bilingualism bonus no longer applied. In consultation with the unions, these were replaced with CRA policies. The Agency has also continued to work on tailoring other labour relations policies to its needs, including a Code of Ethics and Conduct, as well as policies on discipline, preventing and resolving harassment, hospitality and other benefits, and telework.

Collective Bargaining

In March 2001, the Board of Management approved a compensation policy to guide the new approach to collective bargaining. To attract and retain qualified employees in a competitive labour market, the policy commits the CRA to providing compensation to our employees in line with that provided elsewhere. The CRA, using a bargaining unit structure aligned with its occupational group structure, has successfully negotiated five collective agreements with its two bargaining agents without significant labour unrest. In December 2004, a third collective agreement was ratified with Agency employees represented by PSAC, following a work stoppage in the fall.

The Agency has consulted with Treasury Board on its human resources plan as required by the Act. The collective agreements negotiated by Treasury Board and CRA have been similar with regard to the major elements. At the same time, however, the Agency has negotiated specific provisions that respond to its special needs, including performance pay or performance leave, terminable allowances for senior auditors in the Greater Toronto Area (to help address attrition and retention issues), payment of annual professional fees, and preretirement leave for employees aged 55 with 30 years of pensionable service.

The Agency has consulted with the unions representing its employees throughout the development and implementation of new human resources policies and programs. Consultation agreements exist with each union, and there are active union-management consultation committees at the national, regional, and local levels. The CRA has committed to the use of alternate dispute resolution principles in the union-management relationship at all levels, and it continues to maintain good working relationships with the unions.

In 2003-2004, the number of grievances relating to staff relations issues decreased by more than 2,600 or about 44%. This decrease can be partially attributed to agreements with the unions regarding the procedures for the filing of mass grievances.

Technological Improvements and Service Delivery Renewal

Technology is the backbone for most of CRA's HR modernization initiatives that focus on simplifying HR administration and transactions, implementing Agency-specific HR procedures and systems, putting needed information close to the users and enabling them

to update and access information through self-serve applications.

CRA set the stage for improved HR planning and analysis and the modernization of its HR processes by significantly upgrading its HR data management and reporting capacity. The Agency invested in the design and implementation of the HR component of the new Corporate Administrative System (CAS) which was implemented nation-wide in a relatively short time. This has put CRA on an enterprise-wide footing where linked financial and HR information improve the management of resources.

In the spring of 2002, the Board of Management gave approval for the modernization and streamlining of the way in which CRA pays its employees. The Compensation Service Delivery Renewal initiative provides for simplified pay procedures and delivers national services to employees through self-service options and call centre technology. Full implementation, which features consolidation options for 27 service delivery sites, will result in significant efficiencies and savings.

Group Insurance and Benefits

Statutory Provisions

Section 52 authorizes the CRA to enter into group insurance and benefit arrangements, sets related terms and conditions, and exempts these arrangements from the operation of the *Financial Administration Act*.

Implementation

While this provision is consistent with its agency status, the CRA has chosen to date to continue with the Public Service group insurance and benefit arrangements.

Official Languages and Employment Equity

In the areas of official languages and employment equity, the Agency, as noted earlier, is governed by the *Official Languages Act* and the *Employment Equity Act* respectively. Because these two areas are so central to human resource management, it was deemed appropriate to also include them in this report.

Official Languages

The official languages program promotes a workplace conducive to using both official languages with an emphasis on respect and collaboration, supported by knowledge of rights and responsibilities regarding official languages. The Agency set in place a three-year plan for the renewal of official languages. The plan includes an innovative system of quality management for official languages that is designed to better meet requirements for language of work and communication between Headquarters and the bilingual regions. This system already applies to nearly 3,000 employees in the Agency, and is being adopted by the Canada Border Services Agency and Citizenship and Immigration Canada.

Service to the public, Part IV of the *Official Languages Act*, has become an integral part of CRA business. It is monitored from both the public satisfaction level and organizational capacity improvement perspectives. There is also an important linkage made with Part VI, which addresses participation of English-speaking and French-speaking Canadians, and Part VII on the advancement of English and French.

Continuous improvement regarding the active offer of bilingual service is supported by a variety of information and learning sessions as

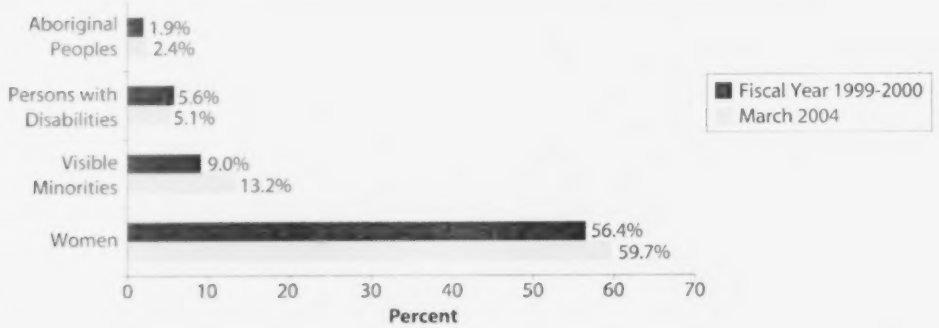
well as initiatives such as cross-regional partnerships and developmental exchanges of staff. Business outreach and partnerships with targeted language minority communities, associations, and businesses are continuing in different areas of the country.

Members of the CRA's Executive cadre must reflect the linguistic duality of Canada and be representative of the Canadian population. Executives in regions that are bilingual for purposes of language of work and all assistant commissioners must meet high levels of second language proficiency. As of March 31, 2004, 96% of the executives in the EX-1 to EX-5 levels met the bilingual requirements of their positions; all others were either on language training or had a language training plan. The performance agreement regime for the Executive and Senior Management levels includes "official languages obligations" as one of the special commitment options which underlines the importance the Agency places ensuring a fully bilingual senior cadre. An Official Languages component is also fully integrated into the curriculum of the MG program and formed part of performance agreements for that group beginning in 2004-2005.

Employment Equity

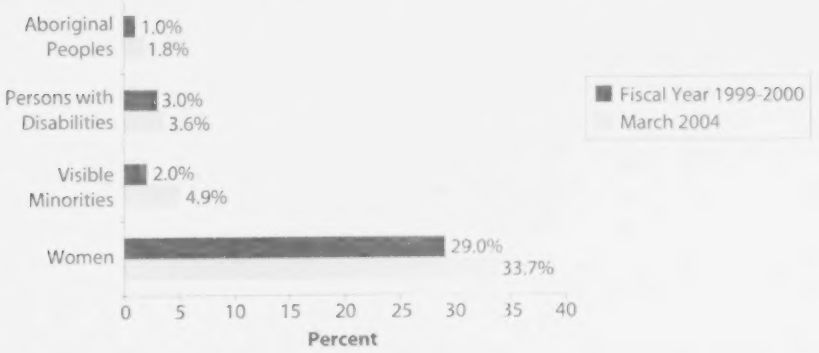
In order to meet its obligations under the *Employment Equity Act*, the Agency has developed a multi-year employment equity plan, the "Strategic Direction for Employment Equity". As a result of its influence, progress on employment equity representation continues to be strong across the CRA as can be seen in the following figure.

Figure 1: Employment Equity Representation Levels Below the Executive Group



The following figure displays employment equity representation in the Executive group, where steady progress has also been made since the creation of CRA.

Figure 2: Employment Equity Representation Executive Group



Between November 2001 and December 2003, the Agency's progress has also been confirmed by the Canadian Human Rights Commission. It undertook a compliance review of the Agency's employment equity program. The Commission found the program to be in full compliance with all 12 statutory requirements of the *Employment Equity Act*.

Assessment of the HR Provisions

The CRA's transition to separate employer status and the introduction of a new human resources regime are a notable success story. Guidance from the Board of Management has resulted in the implementation of policies that integrate innovative private sector practice within a public service context, and, as a result, the CRA is today in the vanguard of HR reform in the Public Service of Canada.

The first major accomplishment was transitioning Revenue Canada's large workforce into the alternative service delivery model, which underlies the creation of the Agency, smoothly and without disruption. In 1999, managers, employees, and their unions were not familiar with the ASD working environment and concerns abounded. The CRA has engaged its staff in the transition through large-scale consultation and the establishment of HR regime design teams. As a result, a sense of commitment to the new organization emerged and paved the way for a successful transition.

The CRA has involved staff, unions, and management in modernizing its HR approaches and has led a large organization to endorse philosophical, cultural, and methodological changes in effective people management.

A notable achievement was the introduction on November 1, 1999, of an Agency-specific staffing and staffing recourse program built on nationally endorsed competencies and responsive to the evolving business needs. Over the course of the last five years, this has been combined with a conflict management and alternative dispute resolution capacity that allows the Agency to move away from a more adversarial and litigious recourse environment.

The CRA's staffing decisions uphold the traditional public service principles of non-partisanship, representativeness, fairness, and transparency. In addition, they are guided by the principles of adaptability, competency, efficiency, and productivity that were recommended and endorsed by the staff in joint

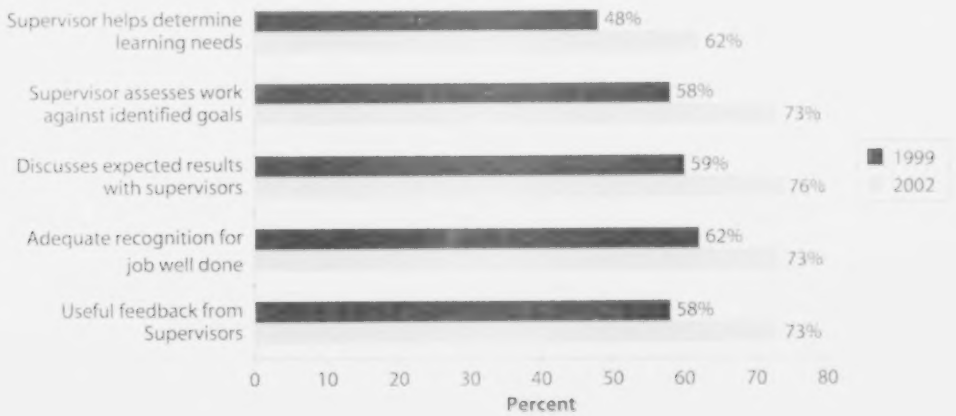
workshops focused on providing optimum service to Canadians.

From a labour relations perspective, the CRA achieved much. As of November 1, 1999, it had replaced the essential employer policies that could not be carried forward into the Agency ASD environment. Early in the transition, the Agency exercised its collective bargaining responsibilities and guided the organization through the Public Service Staff Relations Board certification process for the establishment of the new bargaining agents that would represent CRA employees.

The CRA also made significant improvements in the way it manages HR information in support of HR planning. It also implemented electronic communication tools that better serve its managers and employees from self-help electronic tools to improved electronic learning tutorials and knowledge-sharing Web sites that helped support its cultural change.

The CRA has also enhanced its management capacity by recognizing the significance of effective and ethical leadership in ensuring the quality of its work environment. The changes have had a beneficial impact upon the way in which management and employees interact. This is perhaps best evidenced in the results of two employee surveys: one was completed in 1999, the year the Agency was created, and the other in 2002. As can be seen from the figure that follows, employees have become more satisfied with their work environment over the past few years, a result the Agency believes speaks well of how it has implemented the HR authorities it received.

Figure 3: Indicators of Effective Communication with Immediate Supervisor



This is not to say that all aspects of our HR regime changes are yet fully implemented or embraced to the same degree by all stakeholders. Several components of the Agency's new regime represent multi-year undertakings that require time to fully mature. Others build on cultural changes so fundamental that they will only be fully implemented after the first five years of operation.

Observations of the Auditor General on CRA Human Resources Regime

The Auditor General of Canada, in her letter dated September 15, 2004, to the Commissioner of the CRA, expressed the following comments regarding the Agency's human resources regime:

"Our survey stage did highlight a number of issues relevant to governance. The Agency's vision for a new human resources regime for its 43,000 employees is ambitious and multi-faceted. Overall, if fully implemented, the vision appears to us to address the key governance principles related to human resources management. Specifically, it includes a fair, transparent and competency-based resourcing program that is integrated with annual performance management reviews for all staff, as well as a training program to address competency development, supported by a tiered recourse framework."

In refining its new HR programs, the CRA will give priority to addressing any issues identified through management reviews and studies, achieving full alignment with its future business directions and realizing the full enabling potential of the new regime. It is rapidly moving, for example, to further refine its staffing approaches, to continue the streamlining of classification processes, and to strengthen HR performance measurement, training, and communications relating to the new recourse mechanisms.

The CRA is also working to more fully integrate the components of its new HR regime at the operational level. Developing the talent of its teams and leaders will remain at the heart of the HR renewal strategies, as well as advancing and measuring the efficiency, effectiveness and performance of its HR programs and services. It will continue to work closely with management teams and employee representatives on its change management initiatives.

Developing the talent of teams and leaders will remain at the heart of the HR renewal strategies, as well as advancing and measuring the efficiency, effectiveness and performance of HR programs and services.

Much has been accomplished in human resources in the Agency in a relatively short period. A testament to the progress it has made is evidenced by the fact that its expertise is sought in all areas of HR management by other organizations in the public service. It has been an active participant in assisting the core Public Service in the development of its overall modernization legislation and agenda. Many of the changes endorsed in the *Public Service Modernization Act* mirror changes that were already in place at the CRA. Central agencies have recognized the CRA as a pathfinder in HR reform, and it will continue to willingly assist by sharing its modernization experience.

Part E: Administrative Authorities

General Intent of the Legislation

Sections 60 to 86 of the Act set out the powers of the Agency in respect of expenditures, contracts, provision of services, intellectual property, and real property. These sections provide the Agency with numerous powers beyond those provided to line departments, providing specific administrative powers to carry out the general authority given to the Agency in section 30 of the Act. The Act's administrative provisions, like those for human resources, were designed to permit the Agency to fulfil its mandate as efficiently as possible.

The administrative powers given to the Agency resulted in reduced roles for Treasury Board and Public Works and Government Services Canada. Prior to the Agency's creation, Treasury Board Secretariat had set real property and procurement policy, which had been applied on Revenue Canada's behalf by Public Works and Government Services Canada. This is not to say, however, that the Agency is without oversight in these matters, as Treasury Board and its Secretariat continue to play an important role in the development and approval of the Agency's Corporate Business Plan, which includes operating and capital budgets.

The Agency's core work is to assess and collect income and other taxes. The main business of the Agency is commercially oriented, involving characteristics fundamentally different from the normal type of regulatory work in government. Given this reality, it was recognized that the Agency should not be limited to having its legal work done under the statutory mandate of the Department of Justice. Therefore, the Agency was also given increased flexibility for the procurement of its legal services.

Agency Expenditures

Statutory Provisions

Section 60 deals with the expenditure of funds by the Agency. It provides the CRA with the flexibility to carry forward into the next fiscal year any monies that were appropriated by Parliament and which are unexpended at the end of any fiscal year, unless Parliament specifies otherwise. It also provides the Agency with the flexibility to spend any revenues that it receives by way of fees, disposition of property, and payments under contracts. This provision does not apply to taxes, duties, penalties, or interest collected under the program legislation and which are deposited directly into the Consolidated Revenue Fund.

As noted in Part B of this chapter, the Agency is subject to the *Financial Administration Act* with respect to its appropriations. The above provisions, then, need to be read in light of the requirements placed upon the Agency by the *Financial Administration Act*. Together they govern the expenditure of public funds by the Agency: the *Financial Administration Act* provides that the Agency is subject to the same accountability to Parliament as are other government departments, while the above provisions give the Agency additional flexibilities on the expenditure side.

Implementation

The CRA has had recourse to use the lapsing provisions of the legislation each year since its creation. Over the five-year period, the lapses have averaged about 3% to 5% of the Agency's

appropriation annually and have been of benefit for fiscal planning purposes.

The provisions allowing the Agency to expend money it receives by way of fees, disposition of property, etc., were never intended to provide a major source of revenue for budgetary expenditure. Over the five-year period, these revenues have averaged less than 1% of the Agency's overall budget annually. With the departure of Customs, this figure will fall even further.

More importantly, however, recognizing that it was a new model for alternative service delivery and accountable to Parliament for its performance, the Agency undertook from its inception to enhance the accuracy and reliability of its financial and performance reports to Parliament by modernizing both its comptrollership and its financial administration control framework.

The establishment of the Board of Management and the preparation of a Corporate Business Plan and an Annual Report that focused on performance in relation to that plan also created an impetus for innovations in Agency comptrollership. This direction was reinforced by government-wide attention to comptrollership issues.

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Modern Comptrollership

An initiative known as "Transparent Management for Results" was adopted as one of the three objectives for change under the first Corporate Business Plan's management improvement agenda. It tied a manager's budget and expenditures directly to the achievement of results. It also encompassed many of the elements of the government-wide "Modern Comptrollership Initiative" launched by Treasury Board in 2001.

The Agency continues to improve on its strong base of comptrollership, principally in respect of planning and resource management, cost management, knowledge management, and asset management. A high priority is being placed on reinforcing a comptrollership culture through workshops and training in the executive and management communities within the Agency.

Financial Administration Control Framework

It is axiomatic that good comptrollership practices be supported by reliable, capable information systems. Beginning in 1999, first in the former Revenue Canada and then in the Agency, work was undertaken on the design and implementation of a "Corporate Administrative System" (CAS) to modernize financial management and improve financial and accounting controls. The Agency's CAS is a true enterprise resource planning system that fully integrates financial and human resource management systems. This integration has enabled the Agency to achieve a high level of functionality and productivity in its financial and human resource business processes.

Just as CAS forms the basis for better budget, expenditure, and cost management, new

corporate and client accounting systems have been implemented to strengthen controls and accounting and reporting processes for the revenue streams that the Agency administers. A new Revenue Ledger (RL) System is the capstone of a network of systems that together provide a framework to ensure that revenue transactions are accurate, complete, properly authorized, and processed in a timely fashion. The RL was a crucial element in the Agency's ability to respond to the Government's adoption of accrual accounting for tax revenues in the accounts of Canada. The Auditor General has issued an unqualified opinion on the Agency and its financial statements for each year of operation since 1999-2000.

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While both the CAS and RL systems have matured to be very effective in meeting the purposes for which they were designed and built, their initial implementations were not without challenges. In the case of the CAS, for example, the Agency discovered in consolidating the functions of some thirty legacy systems into a single, horizontally-integrated system, that many of the legacy systems had not been designed with cost-effectiveness of overall processes in mind, and, thus, significant reengineering of business processes was required. Nevertheless, as these types of challenges presented themselves, the Agency took action to respond to them. As a result, today it has internal business processes and systems that support its operations effectively and efficiently.

Sound Financial Management and Administration

The Board of Management, through its Audit and Resources Committees (since merged to form the Finance Committee), has been active in promoting sound financial management throughout the Agency. Quarterly status reports on expenditure, revenue, and accounts receivable performance are given to the Board. Internal audit work is also reviewed quarterly, with particular emphasis on the Agency's ongoing efforts to improve its system of internal control. At the request of the Board of Management, a new quarterly budgeting and expenditure reporting system was also implemented in the Agency. This system has facilitated better in-year expenditure management and, at all levels of management, an improvement in the understanding and knowledge of the Agency's financial status.

Contracts, Agreements, and Other Arrangements

Statutory Provisions

Section 61 states that for contracting purposes the Agency is an agent of Her Majesty and is, therefore, synonymous with the Government. Section 62 permits the Agency to contract with Her Majesty for which purposes it is deemed not to be an agent of Her Majesty. This permits the Agency to procure services directly from other departments and agencies.

As discussed earlier, section 63 permits agreements with provinces to administer a provincial tax or other fiscal measure (see pages 26 to 28).

Section 64 places limits on the Agency's contracting authorities with respect to several federal-provincial arrangements, while Section

65 limits the Agency's authority to enter into international contracts, except for the procurement of goods and services.

Section 66 gives the Agency power to procure goods and services (except legal services) from outside the Public Service of Canada. This means that the Agency can procure its own goods and services directly from the private sector or the provinces and territories.

Section 68 allows the Agency to purchase services from the PSC on a cost-recovery basis.

Sections 71 and 72 give the Agency ownership rights to its intellectual property with the right to license, sell, and otherwise make available such property.

Implementation

From a narrow perspective, the above provisions for contracting and procurement are necessary for the day-to-day operations of the Agency and, as such, are not unusual or particularly noteworthy. The Agency has fully complied with the provisions placing limitations on its authorities. On the other hand, it has had recourse to the provision regarding the purchase of services from the Public Service Commission; the Agency contracts with the PSC for the provision of language training, career counselling, and other services (to the order of about $300,000 annually). The provisions pertaining to the ownership of intellectual property were used (in a minor way) when Customs was part of the organization, but the CRA has not had any activities since Customs' departure that would be encompassed by them.

In a wider context, however, and similar to what we saw with respect to what the Agency had done to ensure the expenditure authorities were administered in a thoroughly professional, transparent, and accountable fashion, the move to agency status prompted a major overhaul of policies and procedures in contracting, procurement and general administration of the Agency.

Following proclamation of the Act, the Board of Management approved new administrative policies for procurement and contracting. New policies and guidelines were also introduced for such things as travel, relocation, commuting assistance, mail, environmental development, sustainable development, resource management, information management, e-mail, internal use of paper, and use of alternative media.

The Agency's first Corporate Business Plan identified Administrative Reform and Renewal as an objective for change. All administrative and financial policies, processes, and organizations impacted by the legislation were reviewed. The consolidation of the Agency's warehouses and forms call centres is an example of the benefits of this process. By May 2003, 11 warehouses were consolidated into two distribution centres for forms and publications (Mississauga and Winnipeg). The results were streamlined processes, improved tracking capabilities, reduced inventory costs, and standardized high-calibre client service (both external and internal).

Overall, the savings from the administrative reform and renewal project between 2002 and 2004 totalled $37.4 million. These came from initiatives for publishing, telephony, e-procurement/strategic sourcing, warehouse review, headquarters re-organization, and real property annual lease savings from the warehouse review.

One of the most significant successes occurred in the area of contracting and materiel

management. Following an analysis of Agency purchases of commodities (from office supplies to laptop computers), it was found that significant savings could be achieved by better leveraging the Agency's purchasing power and by implementing an agency-wide electronic procurement tool. Through the exercise of its new authorities, the Agency has established a national long-term contract for the provision of low-dollar, high-volume office supplies, envelopes and paper, information technology equipment and services, and translation services.

While the introduction of the Agency's new contracting regime has been generally successful, certain adjustments have been necessary. A recent internal audit of the contracting process revealed that a wide delegation of contracting authority to budget managers who did not have the volumes of transactions needed to sustain their contracting expertise resulted in reduced compliance with prescribed procedures. To alleviate this situation, delegation of contracting authority has been significantly retracted and now resides with a smaller cadre of contracting specialists. Certain other complementary measures were also taken to strengthen controls over contracting.

Real Property Services

Statutory Provisions

Sections 73 to 86 set out the powers of the Agency with respect to real property and immovables. These give the Agency the right to own, acquire, lease, and sell property (sections 74-76). It may also transfer to and receive property from the provinces (section 77). It may provide utilities and services, and grants in lieu of taxes in relation to its properties (sections 81, 82). Together with consequential amendments to the *Federal Real Property Act* and the *Financial Administration Act*, these provisions provide the Agency with extensive autonomy to purchase, sell, lease, and transfer to and from the private sector, provinces and territories, federal departments, and international bodies. The Agency retains the resources of the Crown to defend itself against private liability claims.

Implementation

In response to its new authorities, Agency senior management chose to enter into a new business relationship with Public Works and Government Services Canada (PWGSC) that:

- builds on an existing long-term relationship, given that the majority of real property services have historically been provided by PWGSC;
- minimizes financial risk to the Agency; and
- uses a framework consisting of a Memorandum of Agreement and a Services Agreement as the foundation for this new relationship.

The Agency occupies real properties owned by PWGSC or leased by PWGSC from private sector owners. The only property owned by the Agency itself was lost when Customs properties were transferred from the Agency.

The two organizations have signed a Real Property Memorandum of Agreement and a Real Property Services Agreement. The framework agreed to with PWGSC creates important incentives for sound management of both supply of and demand for real property services. Already, partial implementation of the framework has achieved savings in space consumption. When implementation is complete, further similar savings are expected,

as are savings through the application of fit-up standards and through the voluntary relocation of operations from higher-cost to lower-cost properties. In addition, reduction of overlap and duplication between the Agency and PWGSC has created administrative savings. At present, only the administrative savings have been captured by the Agency; the other savings still reside within PWGSC.

Legal Services

Statutory Provisions

Section 67 of the Act establishes that the Attorney General of Canada is the source of legal advice and has charge of the Agency's representation in all litigation to which it becomes party. The section does, however, permit the Agency to engage its own legal officers and outside counsel with the approval of the Attorney General or the Cabinet.

Section 69 allows legal proceedings to be brought against the Agency in the Agency's name. It is a standard provision in the enabling legislation for government corporations. Section 70 protects third parties from capricious action on the part of the Agency. It is similar to a provision governing Crown Corporations in the *Financial Administration Act*.

Implementation

The provisions of section 67 differ from those applying to most departments and agencies which are bound under the *Department of Justice Act* to use the services of the Department. This was the situation for the former Department of National Revenue, which was the largest client of the Department of Justice, consuming about 25% of its client-dedicated resources. The Senior General Counsel of the Legal Services Branch in the Department of National Revenue carried out responsibilities under a joint appointment as Chief Counsel. In Justice, he had special accountability to the Deputy Attorney General and a reporting relationship with the Assistant Deputy Attorney General for Tax Law Services. In Revenue Canada, he had special responsibilities as the Revenue Deputy's delegate for the legal aspects of Revenue operations and policies, and, as such, was a member of Revenue's senior management and policy committees. In this respect, Legal Services was a branch within Revenue and was expected to provide strategic counsel across the Department. The service was integrated with Revenue Canada operations to be sensitive to its priorities and objectives. The Legal Services Branch acted as a window for Revenue Canada to the larger Justice service, ensuring that it was appropriately coordinated to assist Revenue Canada in achieving its objectives and priorities. This arrangement was carried on in the new Agency when it was established in 1999, and it is still in force.

The Justice legal services are co-ordinated through national networks of counsel from litigation offices, the Legal Services Branch, numerous speciality branches at the Department of Justice, tax counsel at the Department of Finance, and Agency officials.

The Agency has not taken action under section 67 to engage its own legal counsel. There are two reasons for this. The first is budgetary. While the Agency incurs significant legal costs, most of the larger Justice service is provided to the Agency at no cost to it. Secondly, and more importantly, the Agency has generally been well satisfied with the Justice service and has relied on the special joint responsibility of its Chief Counsel to provide the

necessary accountabilities in continuing with the service. There has been regular reporting from Justice on the costs of the larger service, and Justice was able to manage developing work pressures and priorities of the Agency.

The provisions of sections 69 and 70 are standard provisions for an agency such as the CRA and, as such, are not particularly noteworthy.

Assessment of the Administrative Provisions

In the administrative domain, the CRA set about to reduce cost and improve internal service levels through a broad program of technology-based re-engineering. Through the exercise of the new legislative authorities, the Agency has improved its efficiency and effectiveness and realized some significant ongoing savings.

The Agency's overhead has been substantially reduced, largely through a comprehensive administrative reform initiative. Between 2002 and today, the internal administration operating costs were lowered by a cumulative amount of more than $37 million. The ongoing annual savings are expected to be $17 million. Expenditures in the finance and administration area have decreased approximately 10% in the last three years and now represent slightly less than 9% of the Agency's expenditures, down from 10% in 1998-1999.

Changes were introduced in the way the Agency purchases goods and services with significant results. In the 2004-05 fiscal year, it will spend some $21 million less to acquire goods and services than it would have under pre-Agency practices. Lower costs have been realized on everything from office supplies and computer equipment to IT consulting services. Effectively, the Agency has managed to make the CRA purchasing dollar go 20% farther – clearly much better value for money.

In the area of real property management, circumstances have prevented the Agency from going as far as it planned in the first five years of agency status. Nevertheless, the Agency has instituted some interesting innovations in the delivery of real property services. Public Works and Government Services Canada and the Agency have signed a Real Property Memorandum of Agreement and a Real Property Services Agreement that effectively commits the two organizations to a partnership approach to demand and supply management. Already, partial implementation of the framework has achieved savings in space consumption and in the cost of administration of the real property management function.

The innovations in Agency comptrollership have resulted in more comprehensive and clear reporting, inside and outside the Agency, on financial matters and on performance. The Agency's financial and performance reports are supported by important developments in information systems capabilities and in the procedures used to analyse, interpret, and present data. Both CRA financial specialists and the broader community of managers at all levels in the Agency play significant roles in the Agency's modernized comptrollership.

The innovations in Agency comptrollership have resulted in more comprehensive and clear reporting, inside and outside the Agency, on financial matters and on performance.

Not unexpectedly, the more attention the Agency focused on systems, procedures, and managerial competencies, the more opportunities for improvement it identified. Thus the Agency continues to have a full slate of enhancements under way as new projects replace completed ones. The Office of the Auditor General, for one, is keenly interested in the progress the Agency is making and is encouraging the Agency to continue to make enhanced comptrollership a priority.

Building from the previous relationship between the Customs component of the Canada Border Services Agency (CBSA) and the CRA, the Agency undertook to establish the CBSA as a separate enterprise within CAS, thus providing CBSA with the same benefits being realized by the CRA. The provision of such a service by one agency to another is somewhat of an exception in the federal government. Normally the organization itself or a common service provider such as Public Works and Government Services Canada would provide these types of services. As the integrated Enterprise Resource Planning (ERP) approach and the strategy being employed for adding a user are both important "best practice" examples that could be leveraged by a government-wide common service provider to the general benefit of the federal government, Public Works and Government Services Canada is watching this development closely. The Agency will continue to show leadership as the Government looks to establish shared services and new administrative arrangements across government as a whole.

The Agency has made significant progress during its first five years, and plans to continue to build upon its record of innovation and accomplishment. The Agency will continue to improve financial and administrative services through initiatives that:

- continue the evolution of the methodology for accrual accounting of tax revenue, and improve the performance of, and controls in, the suite of systems that support the methodology;
- introduce a new Personnel Cost Planning system that exploits the power of the Agency's integrated financial and human resource systems, and support it with training for managers at all levels in budget, expenditure, cost and results management;
- upgrade facilities security wherever necessary across the Agency and improve the security of the Agency's information systems;
- support the Agency's three-year Sustainable Development Strategy; and
- introduce a next-generation e-procurement tool to support expanded use of strategic sourcing arrangements.

The administrative autonomy and flexibility provided by the Act have resulted in administrative practices that demonstrate the Agency's commitment to a business-like approach to the administration of programs. This in turn has been particularly useful in forging new partnerships with provinces, territories, and other government departments for the administration of tax and benefit programs.

Chapter III Operational Accomplishments of the First Five Years

The previous chapter illustrated that the Agency's implementation of the CRA legislation has put in place:

- a unique and workable governance structure in which the Board of Management has played a key role in driving HR and administrative change in the organization;
- a sound and transparent accountability structure that better meets the needs both of Parliament and of the provinces and territories on whose behalf the Agency administers tax and benefit programs;
- a modernized HR regime that better serves the needs of the Agency and its employees;
- a modernized comptrollership and administrative regime that is producing greater economies and efficiencies; and
- an organization dedicated to better serving the needs of the federal government, provinces and territories.

Taken together, these changes have produced a profound effect on the organization – the CRA is a vastly different place than it was as Revenue Canada. A major impact has been a real cultural shift within the Agency in terms of employees' attitudes towards their jobs and the organization. A measure of this can be seen in the results of two employee surveys that have taken place. The first, taken in 1999 before the Agency was created, showed an overall employee satisfaction level of 59.8%, below the public service average of 62.7%. The second, taken in 2002, several years after the Agency had been created and the transformation process started, showed a satisfaction level of 70.3%, 3.2 percentage points higher than the average for the rest of the public service. Another measure of the cultural shift that has occurred can be seen in the fact that, in 2002, some 71% of employees stated they could clearly describe the direction of the organization (mission, vision, and values); in 1999, the comparable figure was only 53%. The achievements that are discussed later in this chapter would not have been possible without the cultural shift that has taken place in the organization.

The emphasis the Agency has placed on developing a professional, dedicated managerial cadre, combined with the Board of Management's concerns for ensuring efficiency and effectiveness in the Agency's administrative expenditures, have created an ethos whereby programs and systems are continually re-examined to ensure the best level of service at the lowest possible cost. The increased agility in decision-making fostered by the new human resource and administrative flexibilities has created an environment where innovation is prized; this in turn has been key to enabling the Agency to succeed with its extensive change agenda. Streamlined decision-making on business priorities, project initiation, and project execution by the management team, under the oversight of the Board of Management, has enabled the Agency to respond quickly to citizen demands for faster and more personalized service delivery, while maintaining the integrity and security of information holdings. The changed cultural and managerial environment resulting from Agency status has reduced the lifecycle of change implementation in service

delivery, and engendered a work environment that embraces continuous improvement and performance management.

One aspect of this continuous improvement is evidenced in the CRA's ongoing effort to reallocate resources from areas that are less critical to those of higher priority. Over the past five years, for example, through a process of careful assessment – and by working with stakeholders – the Agency reallocated over a quarter of a billion dollars to provide new services in response to taxpayer needs.

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One of the key enablers for the achievements that follow is the Agency's information technology (IT) program. Indeed, the Agency's success in defining and delivering on a future-looking IT strategy has been critical in achieving its program, administrative, and management results. The replacement of legacy systems, for example, has required significant new investment, some of which has come from the reallocation efforts noted above. In developing its IT systems, the CRA has been conscious of the need to ensure they have the capacity to serve multiple program areas and clients within the CRA, as well as a variety of external clients – other government departments and agencies, provinces, and territories. In this spirit, it has continued, following the departure of Customs, to support all of the Canada Border Services Agency's IT infrastructure and systems.

The CRA's governance regime with the unique oversight role played by the Board of Management, the leading-edge HR, financial, and administrative regimes that developed from the flexibilities in the legislation, and the strong ethos of professional management and innovation that they fostered, served to set the necessary and important groundwork for significant operational achievements in the areas of client service and responsible enforcement, the two key elements in achieving compliance with the legislation that the Agency administers. Some of the most salient achievements in these areas follow.

The CRA's Approach to Compliance

It has long been recognized that voluntary compliance and self-assessment are the best, most efficient ways to administer Canada's tax system. The CRA promotes voluntary compliance, which, for the majority of Canadians, is an effective approach. However, a program of actions to identify, correct, and deter non-compliance is also essential.

Compliance with tax laws typically means registering when required to do so, filing returns on time, reporting complete and accurate information, and paying amounts when due. Non-compliance occurs when any of these obligations is not met, for whatever reason.

To foster high levels of compliance and to assist taxpayers in receiving their entitlements and meeting their obligations under the law, the CRA provides service and education. CRA client services include Internet-based information and transactions; telephone and face-to-face communications; plain language forms, guides, and publications; technical interpretations; rulings; and specialized problem resolution services.

The Agency also delivers a wide range of programs to protect Canada's tax base and ensure that Canadians pay their required share of taxes. The Agency's robust set of checks and balances include both preventive and detective controls, notably source deductions, third-party information slip and document matching, risk profiling and scoring, compliance research, examinations, audits, and investigations. The Agency also has an active collections program to obtain payment of taxes owing.

The CRA also relies on Industry Specialists Services, a fundamental component of the Agency's compliance strategy. Industry specialists provide information and advice at the highest technical level to both internal and external clients on the operation and taxation of 13 major Canadian industry sectors. They are the point of contact in the CRA for industry to address issues of mutual concern and to seek solutions to industry-wide compliance issues. CRA industry specialists meet regularly with industry associations and their tax committees to discuss issues of mutual concern and, by doing so, develop close working relationships that foster trust and, ultimately, enhance compliance.

Making it Easier to Comply

The Agency's renewal agenda has focused on transforming the way services are delivered:

- ongoing efforts to ensure "value-for-money" by pursuing efficiency and effectiveness measures across all CRA services;
- expanding and improving both the range of service offerings available to Canadians and the variety of channels through which these services are available; and
- striving to ensure that interaction with the CRA is as quick, simple, and effective as possible.

Consultation and communication with stakeholders has been a key element in helping to ensure that Agency services are aimed at areas where they are most needed. In this regard, the Agency has more than 50 advisory and consultative committees at the national, regional, or local levels which focus on the service the CRA provides to individual Canadians and Canadian business. This has enabled the Agency to build an understanding of the particular issues facing groups ranging from seniors and the charitable sector to large business, small business, and the film industry. A list of Agency advisory committees is attached as Annex D.

Observations of the Large Business Advisory Committee

At the May 2004 meeting of the Agency's Large Business Advisory Committee, members noted a number of changes in the five years since the CRA had become an agency. Members observed that:

- The CRA places more emphasis on training, and this is paying big dividends. Auditors have a better understanding of issues and are more effective and more responsible. There is better morale among Agency auditors than in 1999, and more dedication to the job.
- On client services, rulings are more timely and efficient. Rulings officers are more willing to listen when there are time-sensitive issues. Interpretations are easily accessible on the Web site. .../

Observations of the Large Business Advisory Committee (cont'd)

- Compliance: employees are more professional. Auditors in the Tax Services Offices are more open, service-oriented, receptive, and candid. There are more real-time audits. The Large File Case Managers provide information in a very timely fashion. Auditors, especially now, want to do things to help, and want to address issues at the audit stage and avoid the need for subsequent appeals if possible.

The Agency also conducts community visits and other outreach programs to provide assistance to taxpayers through increased education and to promote awareness of tax obligations and entitlements. This increased visibility in the community enhances communication and transparency between CRA and its clients, thereby encouraging voluntary compliance, the cornerstone of the tax system in Canada.

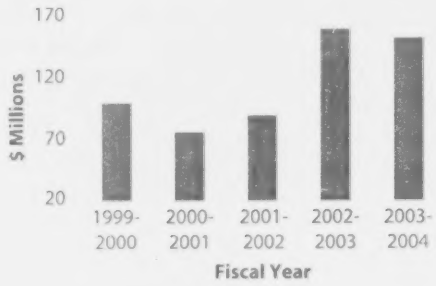
Some specific outreach programs are also designed to provide assistance targeted to particular sectors or businesses. For example, during the past five years the CRA has had a close and productive relationship with the Canadian Home Builders' Association (CHBA). One joint program with the CHBA, which was designed to assist legitimate contractors in educating potential clients about the pitfalls in dealing with underground operators, led to the conclusion that a wide-scale campaign targeted at consumers was needed. The "Get it in Writing!" consumer awareness campaign was officially launched in February of 2003. This two-year program alerted consumers to the risks of dealing with underground operators and the importance of having a written contract.

The CRA has conducted training sessions through non-profit organizations to increase the awareness of non-residents and prospective immigrants about their tax obligations and entitlements. The Agency's "Newcomer Brochure" was subsequently published to better address the needs of immigrants in complying with the tax system.

The CRA's E-Service Strategy

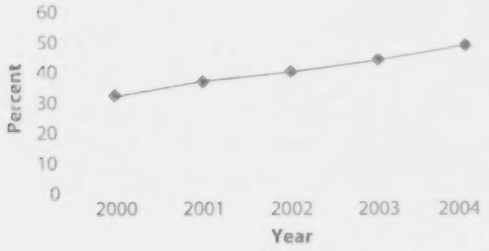
The priority the Agency has placed on the provision of electronic services has made it a leader in this area within the public service. It has fully supported the Government On-Line Strategy by committing to develop electronic service delivery that allows clients to choose from a variety of secure, automated, self-service channels. Over the past five years, it has invested over $560 million to ensure that its service delivery infrastructure keeps pace with the needs and service preferences of Canadians. It has made a major effort to serve clients' needs by simplifying processes and providing faster access to information and services through the Internet. The strategy is working. Visits to CRA Internet pages have risen from 28 million in 1999 to over 222 million in 2004, an increase of almost 700%.

Figure 4: Investments in Electronic Service



Beginning as a Web presence offering in 1999 on our Web site, CRA now offers over 30 Internet based services including NETFILE, Business Registration On-Line, and T4 filing by employers. Electronic filing of individual returns has risen from 31% of all returns filed in 2000 to 47% in 2004. These electronic services make it easier to access information and conduct business with the Agency 21 hours daily, seven days a week.

Figure 5: Percentage of Individual Returns (T1) Filed Electronically



Ensuring that individual taxpayers and businesses are aware of the electronic options at their disposal has been a key part of the Agency's strategy. Millions of Canadians have seen the CRA's national television advertising campaigns during the past four filing seasons. Telephone surveys conducted after the campaigns have revealed sharp increases in awareness of CRA Web services, such as the ability to download tax forms from the site.

A key building block in the CRA's electronic offerings is My Account, which was introduced in 2002. My Account is a secure on-line service that allows Canadians to view specific information related to their income tax returns, Canada Child Tax Benefit, GST/HST credit, and related provincial and territorial benefit programs. It not only gives taxpayers instant access and immediate service, it also helps contain costs because it lowers the demand on CRA agents. The Agency intends to add more services along these lines each year.

The Accenture Report on e-Government

Accenture publishes an Annual Report on e-government leadership around the world. Canada ranked first for the fourth year in a row and, in fact, extended its lead over the closest challengers (Singapore and the U.S.). The report commented that Canada's e-government program "continues to set the standard for the rest of the world".

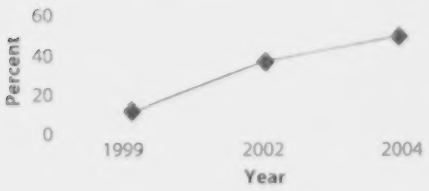
Within the federal government, the CRA plays a crucial leadership role in delivering e-service. As the Accenture report observed:

"Canada Revenue Agency…is transforming the way services are delivered within the Canadian government. The agency has been steadily moving away from paper-based transactions that require manual processing toward automated transactions that can be submitted, verified, and processed by computer systems. Canada Revenue laid the groundwork for electronic filing about 10 years ago, when it revised the manual process that it had been using to input and verify personal income tax returns. The new process for electronic filing, by computer and by telephone, eliminates the requirement to submit a paper return and supporting documents. Close to 43 percent of personal income tax returns filed in 2003 used the agency's automated systems. More significantly, the agency has closed one of its taxation data centres and has redistributed or redeployed about 1,350 of the jobs formerly required to process paper returns."

It is important to note that despite the increased focus on providing services over the Internet, the Agency has continued to serve taxpayers through the more traditional routes. For example, major improvements were made to the CRA's telephone services by implementing state-of-the-art call centre technology. Comprehensive automated response systems now permit service on a 24/7 basis with the capability to transfer calls from one call centre to another as taxpayer demand ebbs and flows allowing the Agency to optimize the use of resources, reduce costs, and provide extended hours of service. The networks are also designed with full business resumption capabilities. This has enabled the Agency to deal with such issues as floods and power failures.

These enhancements have meant that, compared to 1999 when the Agency was put in place, Canadians now have more choices, can conduct business faster, meet their obligations, and receive benefits more quickly. Moreover, this has been accomplished in a cost-effective manner: telephone accessibility targets are met and often exceeded at a cost that is $12 million less than five years ago.

Figure 6: CRA Business Conducted Electronically



Delivering Benefits for Canadians

The CRA is playing an increasingly important role in providing income-based benefits to Canadians. Through a number of programs, including the Canada Child Tax Benefit (CCTB), the goods and services tax/harmonized sales tax (GST/HST) credit, and 17 provincial and territorial benefit programs, the Agency issues almost $11.9 billion annually in benefit payments to millions of families and individuals on behalf of the federal, provincial, and territorial governments. The infrastructure for these core programs is also used to deliver non-recurring, one-of-a-kind payments on behalf of the federal government and the provinces and territories, such as the Ontario Taxpayer Dividend and Alberta's Energy Tax Refund.

Provincial and territorial partners also rely on the Agency to provide the data they need to calculate social assistance. Social assistance agencies in nine provinces and three territories rely on synchronized CRA data feeds to provide families with timely and accurate social assistance. In addition, eight Income Verification Agreements have been negotiated with six provincial ministries. This will give the Agency's provincial partners client information via the Internet to help them determine eligibility for provincial benefit programs.

Working with Canadian Business

The CRA has endeavoured to assist the competitiveness of the Canadian business community by ensuring that their interactions with the Agency are conducted as efficiently and effectively as possible. The CRA's efforts in this regard have particularly focused on small and medium-sized enterprises, where it was felt they could have the greatest impact.

As a result of the measures that have been introduced over the past five years, Canadian businesses now have the option of registering, filing, and making payments electronically. A

sampling of some of the services offered to businesses are:

- business registration on-line. This is a self-service automated registration system using the Internet that was introduced in October 2000. It is integrated with several other federal departments and provinces, thereby permitting simultaneous registration for a number of programs. During 2003-2004, over 48,700 new businesses obtained their business number, and 108,000 program accounts were registered through the system;
- corporate Internet filing of returns. This was introduced in October 2002 and results in faster processing and refunds, less paper, and lower mailing and courier costs;
- electronic payment of taxes through financial institutions. This year, more than $66 billion in payments will be made through this service, representing 26% of all such payments;
- business call centres. These dedicated centres provide information specifically tailored to the needs of businesses;
- dedicated web portals for business. The CRA website includes a portal for tax professionals and an interactive on-line enquiry service for small and medium enterprises; and
- account managers for large business. This service is in the process of being introduced and will better serve the needs of large business enterprises.

Observations of a Corporate Taxpayer

Another significant improvement that we have noticed from the Agency in the past five years has been its accelerated use of the worldwide Web. The Agency's Web site is one of the best operated and published by a Canadian tax authority. It is an absolute credit to the Agency for aggressively promoting the use of the worldwide Web as a tool for disseminating and providing information to taxpayers. Almost all tax-related forms and publications are available on the Agency's Web site. Such an approach is a vast improvement over the days when we had to telephone or mail a request for forms or publications to the Department of National Revenue and wait for the request to be processed and then mailed back to us.

Pierre M. Bocti
Director, Tax
Hewlett-Packard (Canada)

Improving the SR&ED Program

Canadian businesses that conduct research and development across the country have also benefited from changes that have been made to the Scientific Research and Experimental Development (SR&ED) tax credit program over the past five years. In the past, a number of clients expressed concern about the effectiveness of the program in terms of the consistency of its delivery. In working with industry representatives over the past five years, the program has addressed these concerns and, in doing so, has become more strongly geared towards providing a client-focused service.

The SR&ED program has established committees with industry representatives to improve the CRA's approach to delivering the SR&ED tax credit program. As a result, the SR&ED program is now:

- more focused on clients in its day-to-day operations;
- more responsive to the needs of Canadian businesses;
- better understood by Canadian companies because of improved communications;
- characterized by greater consistency and certainty in its delivery; and
- enhanced through fair and effective methods for reviewing claims.

The program has taken action to ensure that companies are aware of the program and can access it as easily as possible. In this regard, the program introduced the "Refunds for Small Business R&D" brochure in November 2002. This brochure addresses the needs of small business in plain language. The Web site has been extensively improved to increase accessibility to information on the program, thus enhancing client awareness and knowledge of the program. The SR&ED claim form has been simplified, thereby reducing the paperwork and cost of preparing claims for clients.

The CRA has continued to ensure it administers the program with fiscal integrity, by helping companies to correctly self-assess their own SR&ED claims, while reviewing these claims in a timely manner. The Preclaim Project Review (PCPR) and Account Executive Services were introduced as tools for the CRA to educate SR&ED clients. Clients benefit from the PCPR Service by receiving an upfront review and a preliminary opinion on the eligibility of projects for SR&ED incentives. This advisory service helps clients self-assess their claims and more fully understand the program. The Account Executive Service provides clients with a designated contact person from the SR&ED program who will provide one-stop access to SR&ED information, and will help make sure that clients get the benefits to which they are entitled under the program. This service is useful for clients, as they can more fully understand the review process and the requirements for technical eligibility and substantiation. This in turn leads to improved compliance.

To ensure that the program is best serving Canadian businesses, client surveys are now conducted every three years. Results from the 2002 benchmark survey showed that the SR&ED program has been instrumental in the success of Canadian businesses. The next survey is planned for 2005 and will serve as a valuable measure of whether recent enhancements to the program have been successful.

Observations of Businesses Regarding the SR&ED Program

"It is my unreserved view that the SR&ED program is one of the most useful programs in Canada. The diligence, dedication, and experience of the SR&ED staff are absolutely outstanding."

Yousef Haj-Ahmad, President and CEO
Norgen Biotek Corp.

"The Account Executive Service has completely changed the way smaller businesses access the SR&ED program. With the assistance of experienced science advisors, they can ensure that their scientific research programs are structured and documented properly from the outset. As a result, their claims are processed more quickly-providing them with funding to develop their businesses, while saving time and money for everyone."

Sally Boucher, CGA
Financial Advisor

Working with Charities

Over the past five years, the charities program has made significant strides in improving service across its operations to charities, prospective charities, and donors, and in assisting and improving compliance in the charitable sector. The timeliness of service had been a vexing problem for the sector. As a result, several operations areas were re-engineered to ensure effective and efficient service delivery. Risk management principles were applied to the charity application approval process resulting in significantly reduced processing time. A new two-tier phone system was successfully piloted and implemented. Organizations with simple questions now receive more immediate answers, while those with more complex queries are answered by more experienced staff with minimum delay. The annual information return filed by registered charities was reduced from 13 to 4 pages, a measure greeted with enthusiasm by the sector since it significantly reduced their time and cost of compliance.

Another issue addressed by the Agency was the general difficulty the charitable sector had in accessing information it needed for compliance. In response, a customized Web portal for charities was created to provide one-window access to the CRA's information for and about charities. The Web site provides a list of registered charities and recently revoked charities, offering another means for donors to verify a charity's status. The Web site also offers on-line display of the public portion of the annual information return filed by registered charities, beginning with the 2002 fiscal year. In addition to all forms, guides, and publications, the Web site also provides access to more than 100 policy documents. All these measures provide increased transparency of the decision-making process.

Working with the sector and the Department of Finance, the Agency spearheaded a series of improvements that were announced in the federal Budget 2004. Taken together, these measures amount to substantial improvements in the regulatory framework affecting charities. The enhanced framework will provide new intermediate sanctions for charities that do not comply with the rules, a new appeals process, further improvements to monitoring activities, and will provide for still greater transparency. These are tied with an increased emphasis on building public awareness and sector outreach, and building collaborative partnerships with provinces and territories (that have jurisdiction to regulate charities) to form a regulatory framework and administration that will be innovative and effective, and will build public trust in the sector and confidence in the CRA as a regulator.

The advances made in this area were the result of a broad consultation exercise. In addition, and to provide an ongoing feedback mechanism, the CRA has launched a Charities Advisory Committee as a vehicle for communication and consultation. The Committee is formed of volunteer representatives from the sector and will help map out and develop the CRA's thinking on complex issues and on new and emerging areas of concern.

Observations of the Charitable Sector

"... the change that has taken place [in the Charities Directorate] in less than four years is extraordinary."

Arthur Drache, Financial Post, June 4, 2004

"This (Budget 2004) is a big deal, the most significant reforms in the charity sector in 20 years."

Bob Wyatt, Executive Director, Muttart Foundation
quoted in National Post, March 24, 2004.

Risk-based Enforcement

Maintaining high levels of taxpayer compliance is a constant challenge since many factors influence compliance. There are also many reasons for non-compliance that, in turn, require tailored programs.

Obtaining a tax return is the first and most important step in the compliance process. The tax return is the basis for establishing each filer's tax liability and their entitlement to the federal benefit programs. CRA supports filing compliance through a broad assortment ranging from assisting taxpayers, facilitating their filing through electronic services, and conducting responsible enforcement actions when they fail to file their tax returns. The non-filer program is aimed at identifying high-risk cases based on danger of loss and assessment potential. The main strategy is to conduct a data match using third party information and conducting enforcement actions as appropriate, including prosecution. In 2003-2004, the Non-filer program detected over 750,000 taxpayers who had failed to file resulting in over $2 billion of tax recoveries.

There are also a number of compliance challenges associated with the obligation of employers to deduct payroll taxes from their employees, to remit these amounts periodically to the government, and to report those earnings on information slips. A series of instruments are used to promote compliance ranging from education, rulings, legislative instruments, computer assisted enforcement reviews, audits, and prosecutions. The total fiscal impact resulting from the CRA's payroll compliance activities is $1.4 billion in tax recoveries.

The Agency works to identify areas where the risk of non-compliance and the potential loss of revenue to the Crown are highest and to understand the factors that contribute to them. It examines socio-economic trends as well as emerging business practices to identify indicators of possible non-compliance. It has also developed sophisticated risk-assessment systems that examine the tax characteristics of Canadian taxpayers in order to identify and estimate possible non-compliance. The Agency is continually working to improve the effectiveness of its risk-assessment systems. Its risk-assessment processes enable it to target compliance activities towards areas of highest risk and to shift resources to these key areas. By doing this, the Agency also reduces the cost to compliant taxpayers.

Over the past five years the Agency has used risk-based strategies to address compliance priorities such as GST/HST, large corporations, electronic commerce, international tax, and

aggressive tax planning. The Agency has been innovative in adapting its programs, technology, and approaches to operational challenges.

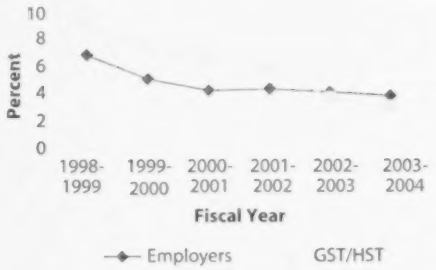
To improve GST/HST compliance, the Agency implemented the GST/HST Enhanced Registration Review program to validate client information and assist in quickly identifying potentially high-risk registrants. The program started as a pilot project in the St. John's Tax Centre in December 2000 and was implemented nationally in 2003-2004. High Risk Analysis (HRA) Teams were also established to conduct further in-depth risk assessment on the information provided by registrants. These teams use data interrogation software applications to highlight GST accounts that exhibit characteristics indicative of fraud. In the three fiscal years ending in 2003, the HRA teams detected 1,289 GST accounts with fraudulent refund claims, preventing more than $9 million from being paid out.

During the 2003-2004 fiscal year, the CRA and the Ministère du revenu du Québec (MRQ), which administers the GST for the federal government in Quebec, processed 8.9 million GST/HST returns. A system of checks and balances has been put in place to minimize errors and identify high-risk files for further review. As a result of the work of the CRA and MRQ, non-compliance with GST/HST filing and remitting requirements has fallen over the past five years.

The Delinquent Filer Program seeks to ensure that GST/HST Registrants who have outstanding returns and remittances meet their obligations. This activity includes system-generated letters, direct telephone contact by agents at the National Collections Call Centre, and progressive enforcement actions like reviews or examinations that sometimes lead to prosecution. The fiscal impact resulting from this program amounted to over $1 billion.

Figure 7 illustrates how both GST/HST and employer non-compliance rates have fallen over the past five years.

Figure 7: Employer & GST/HST Non-Compliance Rates



The Agency reviews all tax returns from corporations identified as part of its Large File Program (gross revenue in excess of $250 million), as these corporations face highly complex corporate transactions and deal with very technical tax legislation. Due to this complexity and the significant revenue involved, audits are conducted on all files, where material tax-at-risk exists, over a two-year audit cycle.

The Agency developed the Internet Business Audit Project (IBAP) in response to the rapid evolution of information technologies and the advent of e-commerce as a new business reality. The Internet has brought about significant changes in the market place and introduced compliance issues that were neither possible nor contemplated in traditional paper-based commerce. The objectives of the project are to evaluate the compliance of businesses carrying out their activities over the Internet; identify e-commerce audit issues; gain knowledge of the business environment and practices used relative

to e-commerce; develop e-commerce information, training, and tools; and acquire a more comprehensive understanding of the added risks of non-compliance that are posed by conducting business over the Internet.

The CRA has devoted special attention to ensuring that Canadians receive their fair share of taxes from international business transactions. A comprehensive CRA response to the issue of "treaty shopping" has been developed in conjunction with the Department of Justice and is currently being implemented. Treaty shopping involves the establishment of notional residency in a jurisdiction having favourable income tax treaty provisions with Canada. The residency is usually temporary and established solely to gain access to the treaty provisions. The CRA is reviewing approximately 170 files involved in treaty shopping to ensure compliance with Canadian tax laws.

The Agency also addresses the risk to tax revenues associated with transfer pricing arrangements by focusing on industry specific issues, offshore transactions, and corporate restructuring that move taxable profits out of Canada. The Agency co-operates with its treaty partners and taxpayers to secure certainty of treatment in transfer pricing and promotes compliance through the use of Advance Pricing Arrangements that are geared primarily to avoid potential double taxation between Canadian taxpayers and their foreign-based related parties that are eligible for benefits under Canada's network of 81 tax treaties.

To enhance the Agency's capacity to manage compliance programs more effectively and deliver its core business in a more integrated and efficient manner, the Agency has undertaken several business transformation initiatives. These initiatives involve the development and implementation of an integrated suite of IT solutions that will leverage the data assets of the CRA and deliver tools that will equip the Agency's knowledge workers to deliver on program priorities. The key initiatives driving this business transformation are:

- Integrated Revenue Collections Program (IRC) covering the collections, non-filer, and non-payment workflows;
- Business Intelligence and Decision Support (BIDS) Agency Data Warehouse which is establishing the data foundation to support compliance risk profiling and outcome analysis;
- Business Integration Systems Support Infrastructure (BISSI), which will provide a secure, single window access to a comprehensive suite of systems to support risk assessment, program delivery, and integrated information management; and
- Agency Case Management, which will provide a common web-based case management solution to all users, to assign and track workload activities.

Collecting Revenue More Efficiently

Ensuring that everyone pays what he or she owes is important to the reality and the perception of fairness in the tax system. It is also, of course, a major element of the government's revenue stream.

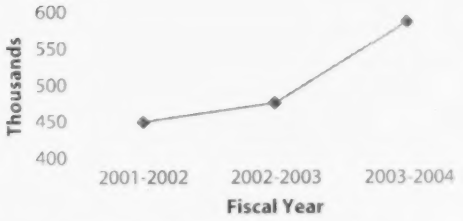
Not only has the Agency resolved more accounts from its collections stream over the past five years (from $8.4 billion in 2000 to $10.8 billion in 2004), it has done so more efficiently. The production per FTE has increased from $2.6 million for the fiscal year ending March

2000 to $2.7 million for the fiscal year ending March 2004.

Enhancing business performance in collections began with the implementation of the National Collections Call Centre in 1997. By investing in state-of-the-art technology, the Agency was able to shift high volume, low complexity workloads to the Call Centre from local offices. This allowed Agency personnel to focus more effectively on the complex, high risk accounts in the local offices.

On a timely basis, the Collections Call Centre is able to contact and make mutually satisfactory payment arrangements with clients. This approach early in the debt cycle has reduced the number of accounts that will require further enforcement action.

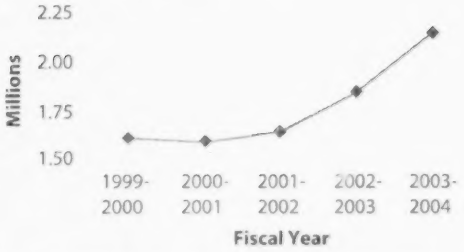
Figure 8: National Collections Call Centre Resolved Accounts*



* Statistics previous to 2001-2002 are not available.

The number of calls actioned by the Call Centre has increased 34% from 1.62 million in the fiscal year ending March 2000 to 2.17 million in the fiscal year ending March 2004.

Figure 9: Number of Calls Actioned



The introduction of a national collections call centre to accelerate the resolution of high volume/low complexity accounts has been replicated in other tax administrations such as Japan and the U.K.

The Agency has nonetheless experienced sustained growth in accounts receivable for all tax revenues it administers. As a result of workload growth and the attention given to newer accounts receivable, the receivables over five years of age also increased slightly. The Agency has accordingly invested additional resources in 2004-2005 to resolve older accounts receivable.

To prevent further escalation in accounts receivable and to effectively manage the existing debt load, the Accounts Receivable Program has implemented a comprehensive debt management strategy. A key initiative of this strategy is the enhanced use of technology that will enable the Agency to identify and action high value, high risk accounts on a timely basis.

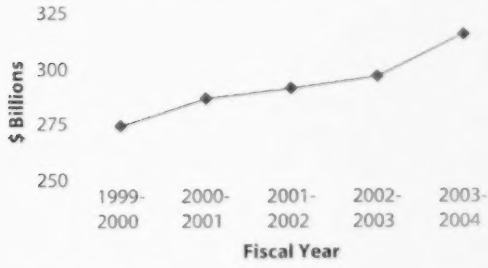
Fiscal Impact

For the Government of Canada and the provincial and territorial governments, a more effective compliance regime means that revenue flows to the Crown are stronger. It is recognized that the growth in tax revenue is subject to a large number of parameters including the overall

performance of the economy, tax policy changes, and the effectiveness of the tax administration processes and practices. It is extremely difficult to try to isolate the tax revenue impact associated with the individual factors. Overall, the total revenue of $274 billion in fiscal year 1999-2000 has risen to $313 billion.

Over the five years since Agency implementation, the average fiscal impact per full-time employee engaged in audit, verification, and matching activities has increased by 6%, when compared to the five-year period prior to Agency. The average files completed per employee have also increased by 6% across compliance related programs.

Figure 10: Revenue Growth



Periodically, the Agency receives budget adjustments to maintain an acceptable level of compliance activity. Significant new resources were provided starting in 2001-2002. The Agency has been able to not only meet but to exceed the performance expectations that were established at that time with respect to fiscal impact.

The CRA Redress System

A central part of the Agency's approach to compliance is the redress system. The CRA administers one of the Government of Canada's largest dispute resolution services. It provides clients with a fair and impartial dispute resolution process that respects their fundamental right to redress in their dealings with CRA-administered legislation and programs. The Agency reviews contested decisions relating to income tax, GST/HST, excise tax, the Canada Pension Plan (CPP), and Employment Insurance (EI). In 2003-2004, the Agency received about 59,000 income tax and GST/HST objections of which approximately 95% were resolved administratively. As well, the Agency received over 5,400 Canada Pension Plan and Employment Insurance appeals of which approximately 66% were resolved administratively.

The Appeals Program also co-ordinates the Agency's Fairness Initiative and administers the Voluntary Disclosures Program that allows clients to correct past errors or omissions in their tax obligations without penalty. In 2003-2004, there were over 68,000 client requests and 1.6 million automatic waivers under the fairness provisions, and 6,344 voluntary disclosures that resulted in approximately $459 million in tax recovery.

The Agency believes that its Appeals Program offers an effective and efficient redress process to its clients. In fact, in the *November 2004 Report of the Auditor General of Canada to the House of Commons*, the Auditor General commented that the Agency's Appeals Program resolved objections to income tax and GST assessments in a way that is fair and impartial and that appeals of CPP and EI rulings and assessments are resolved impartially. The Auditor General also supported the goals of the Voluntary Disclosures Program and acknowledged the good response from taxpayers and registrants. The Auditor General went on to make specific recommendations on improving and enhancing the effective

and efficient administration and delivery of various aspects of the Appeals Program. The Agency has taken action to implement these recommendations.

Developing and Maintaining International Partnerships

Globalization has brought with it risks associated with practices that undermine the fairness and integrity of individual tax systems. A stable tax base is critical to the fulfilment of government contributions to a country's economic and social infrastructure. In particular, tax practices that undermine fair competition and public confidence in tax systems, the increased speed with which abusive tax planning arrangements are being developed and applied worldwide, and the growing concern about significant revenue loss are all priorities for research, dialogue, consultation, benchmarking, and sharing of best practices among international tax organizations. The impact of such considerations is not limited to national revenue concerns but also affects the climate of competitiveness and the fair trade practices necessary to give certainty in international commerce.

To the extent that unfair international tax practices and aggressive tax schemes that seek to divert investment purely for tax evasion reasons exist, the international trade and investment climate is hurt. In recent years, abusive tax shelters have proliferated and been structured and marketed across international borders. These transactions are often complex and more difficult to detect and unravel without the sharing of information and knowledge between national revenue authorities.

The Agency is committed to improving its knowledge and understanding of important and growing international compliance issues such as tax havens and harmful tax practices. The Agency has cultivated relationships with treaty partners and international associations and directly contributed to international work to combat common problems and improve its understanding of non-compliance at the international level. Early identification of new and emerging issues allows the Agency to proactively anticipate the resources and actions needed to protect the Canadian tax base.

The Agency has worked diligently to build key partnerships with other countries through various organizations and associations. The Canada Revenue Agency plays a significant leadership role in various international fora, including the Organisation for Economic Cooperation and Development (OECD), where Canada chairs the Committee on Fiscal Affairs; the Pacific Association of Tax Administrators (PATA); the Inter-American Center of Tax Administrations (CIAT), where Canada is the chair of the CIAT Steering Committee on the Promotion of Ethics; the Commonwealth Association of Tax Administrators (CATA); and in the *"francophonie"* through the "Centre de rencontres et d'Études des dirigeants des administrations fiscales" (CRÉDAF). The Agency is also specifically working on a close bilateral basis with the United States.

While many of the Agency's international partnerships predate agency status, collaboration on international initiatives increased markedly with the inception of the Agency. Existing partnerships have been strengthened, and the Agency has entered into new ones. Examples of the latter include the Seven Country Tax Haven Working Group which exchanges information and approaches to dealing with compliance challenges associated with tax havens; the Joint

International Tax Shelter Information Centre which focuses on identifying and curbing abusive tax avoidance transactions on a national and global basis; and the Committee of International Organizations for Tax Administration (CIOTA) which promotes both increased dialogue between various regional tax administrations and greater coherence in the work programs of participating tax organizations on international tax issues. Canada acts on the secretariat of CIOTA.

From the perspective of Canada's international priorities for trade development and international development assistance, the Agency is active in a number of countries, providing assistance in the development of income tax and consumption tax systems. International co-operation in the area of tax administration is an important element in setting a fair and open framework for the development of international commerce.

Conclusion

In announcing in the Speech from the Throne and Budget of 1996 the creation of what was to later become the Canada Revenue Agency, the Government set three objectives for it. The Agency was to:

- provide better service to Canadians;
- become a more efficient and effective organization by having greater flexibility to tailor its administration to best suit its needs; and
- establish a closer partnership with provinces and territories.

Five years is a short period in the life of an organization that has been around in one form or another since Confederation, particularly one like the Agency that has undergone a very significant change agenda. Nevertheless, it is not too short a period to conclude that the experience in Canada with alternative service delivery has been a success in the Canada Revenue Agency's case.

As the preceding report has demonstrated, Canadians are receiving better, faster and higher quality tax and benefit administration than ever before. Indeed, the CRA's service delivery has become a model, both within the public service in Canada and internationally where it is seen as a leader in this area. The infrastructure the Agency has built to deliver this service is second to none and is increasingly serving broader federal and provincial interests.

The CRA is also a much more efficient and effective organization then it was as Revenue Canada. Under its administrative reform and renewal initiative, it has successfully reduced overhead, producing significant ongoing savings. Similarly, through a major reallocation effort, over a quarter of a billion dollars has been ploughed back into new infrastructure and services for taxpayers.

The CRA has also made an enhanced relationship with provinces and territories a priority. The Agency is increasingly used by provinces and territories for the delivery of their tax and benefit programs. They have come to depend upon CRA data in a major way for income tested programs that they themselves administer. The Agency has also significantly improved its reporting and accountability to provinces and territories as a direct result of Agency status. It is a partnership that is working well.

There is no question in the minds of those who have been closely connected with the CRA over the past five years that its success in meeting the objectives that were set for it are undeniably due to the organizational dynamism and drive that resulted from Agency status. The Agency's unique governance structure allowed the Board of Management to play a key role in overseeing and driving the complete overhaul of the Agency's human resource and administrative systems. The modernized comptrollership and administration regime produced a culture that prizes efficiency, economy and continual improvement which, in turn, led to the significant achievements in the Agency's client service and compliance programs. The modernized HR regime resulted in a more committed and professional workforce and a strong management team that has been capable of delivering on the Agency's priorities.

All of this has been put in place against the backdrop of an improved accountability regime, both to Parliament and, as noted, to provinces and territories. It is supported by a robust performance management system that carries accountability for results down through the organization, making all managerial levels responsible for contributing to the Agency's priorities.

By virtually any measure, the Canada Revenue Agency must be counted as a successful undertaking and a benefit to the country. The Minister, the Board of Management, the Commissioner and the employees welcome the challenges of the next five years.

Annex A Agreements with Other Government Departments and Agencies Concluded or Significantly Updated Since November 1, 1999

Agriculture and Agri-Food Canada

- Letter of Concurrence – Interim Agreement for services and cost of Canadian Farm Income Program

Bank of Canada

- MOU for reimbursement of CRA's portion of courier costs

Canada Border Services Agency

- MOU governing the provision of various program delivery services
- MOU for the management of real property necessary for the operation of customs and border crossings
- MOU regarding the provision of information technology services by the CRA

Canada Economic Development for Quebec Regions

- MOU relating to the refund set-off program

Canada School of Public Service

- MOU relating to provision of on-line training to CRA employees (CampusDirect)

Canadian Heritage

- Letter of Intent to sign an MOU to conduct Canadian content audits of Canadian film or video productions for which an application for certification has been submitted

Canadian Mortgage and Housing Corporation

- MOU relating to the refund set-off program

Canadian Wheat Board

- MOU relating to the refund set-off program

Correctional Service Canada

- MOU relating to the communication of information concerning incarcerated individuals

Department of Finance Canada

- 2003-2004 authorization to release Standard Industry Classification/North American Industry Classification System (SIC/NAICS) codes

Farm Credit Canada

- MOU relating to the refund set-off program

Fisheries and Oceans Canada

- MOU relating to the refund set-off program

Foreign Affairs Canada

- MOU for the refund set-off program

Human Resources and Skills Development Canada and Social Development Canada

- MOU relating to the delivery of the Canada Pension Plan and Employment Insurance programs by the CRA
- Concurrence Letter setting out the conditions for the release of CRA information for policy analysis, research, and evaluation purposes

Library and Archives Canada

- MOU relating to safeguarding the CRA's information holdings, including protected information that is transferred to the National Archives

Office of the Auditor General of Canada

- MOU relating to client information in the possession of the OAG or contained in the Auditor General's Reports

Office of the Superintendent of Financial Institutions

- MOU for the exchange of information and collaboration between the two organizations

Public Works and Government Services Canada

- MOU with respect to the Supplier Registration Information Service
- MOU relating to provision of government document custody and retrieval services
- MOU regarding real property and services

Royal Canadian Mounted Police

- Letter of Agreement for RCMP Supernumerary Special Constable Peace Officer Status

Statistics Canada

- MOU outlining the roles and responsibilities for the release of income tax and GST information
- 2004-2005 Disclosure Order for the use of Standard Industry Classification/North American Industry Classification System (SIC/NAICS) codes by the CRA and other organizations
- MOU relating to the refund set-off program

Treasury Board of Canada Secretariat

- MOU regarding Government On-Line Initiatives, Pathfinder Projects
- MOU regarding Government On-Line Initiatives, Round 3 Investment Strategy
- MOU relating to the provisions of the Government Security Policy

Veterans Affairs Canada

- Letter of Agreement for the production, mailing, and distribution of War Veterans' allowance letters

Western Economic Diversification Canada

- MOU relating to the refund set-off program

Annex B Agreements with Provinces and Territories

Newfoundland and Labrador

- Memorandum of Understanding With Respect to Mutual Cooperation, Joint Initiatives, and Information Sharing
- Memorandum of Understanding – Income Verification – Student Financial Assistance Program
- Memorandum of Understanding – Income Verification – Professional Fish Harvesters Certification Program
- Service Management Framework Agreement

Prince Edward Island

- Memorandum of Understanding to Promote Enhanced Cooperation, Mutual Assistance, and the Exchange of Information
- Memorandum of Understanding Concerning the Administration and Payment of a Government Rebate to PEI Under the Reciprocal Taxation Agreement
- Service Management Framework Agreement

Nova Scotia

- Memorandum of Understanding With Respect to Payment Processing Services and Exchange of Information
- Memorandum of Understanding Concerning the Communication of Taxpayer Information in Relation to the Nova Scotia Child Benefit
- Memorandum of Understanding Between the Canada Customs and Revenue Agency and Nova Scotia Department of Agriculture and Fisheries (on the auditing of books and records of licensed fish buyers for provincial purposes)
- Memorandum of Understanding for the Administration of the Nova Scotia Taxpayer Refund
- Memorandum of Understanding With Respect to the Administration of Requirements to Pay Issued to the Worker's Compensation Board of Nova Scotia
- Memorandum of Understanding With Respect to the Nova Scotia Business Registry Between the Canada Customs and Revenue Agency and the Nova Scotia Department of Business and Consumer Services
- Nova Scotia Business Registry Charter
- Interim Agreement Regarding the Verification of the Declaration of Compliance for Procurement Contracts
- Service Management Framework Agreement

New Brunswick

- Memorandum of Understanding with respect to the New Brunswick Business Registration Service System
- Service Management Framework Agreement

Quebec

- Memorandum of Understanding Concerning the Communication of Taxpayer Information in Relation to the National Child Benefit
- Terms and Conditions Relating to the Data Processing Security Mechanisms (relates to GST/HST)
- Terms and Conditions Relating to the Procedures for Processing Requests for Access to Information or to Documents (relating to GST/HST and TVQ)
- Terms and Conditions Concerning the Processing of Communications (relating to administration of the goods and services tax)
- Terms and Conditions Relating to Co-ordination and Control for the Administration of the GST/HST by Quebec
- Terms and Conditions Relating to the Carrying Out of Auditing Activities for the Administration of the GST/HST by Quebec
- Terms and Conditions Relating to the Processing of Notices of Objection and Applications for Time Extension for the Administration of the GST/HST by Quebec
- Terms and Conditions Governing the Processing of Requests for Interpretations, Interpretation Rulings, or Advance Rulings, and the Process of Designating Municipalities, Charities, and Barter Exchange Networks for the Administration of the GST/HST by Quebec
- Memorandum of Understanding Concerning the Transfer of Information Regarding Quebec Pension Plans Between the Government of Canada and the Régie des rentes du Québec
- Letters of Agreement on the Transfer Rate of Taxes Collected at Source in Ontario in Respect of Quebec Residents

Ontario

- Ancillary Agreement Concerning the Ontario Child Care Supplement for Working Families
- Memorandum of Understanding with Respect to Mutual Cooperation and Joint Initiatives Between the Canada Customs and Revenue Agency and the Workplace Safety and Insurance Board of Ontario
- Agreement – Validation Coverage for the Ontario Property Tax Credit
- Memorandum of Understanding with Respect to Integrated Business Registration and Change of Business Information

- Letter of Understanding – In Support of the Developmental Interchange Program and the Interchange Program
- Memorandum of Understanding and Service Level Agreement for Providing Call Centre Services for the Ontario Home Property Tax Credit for Seniors Program

Manitoba

- Memorandum of Understanding Concerning the Communication of Taxpayer Information in Relation to the National Child Benefit
- Memorandum of Understanding for the Exchange of Information Between CCRA and the Government of Manitoba Health
- Memorandum of Understanding for the Collection of Debts Due Her Majesty in Right of the Province of Manitoba by Way of a Refund Set-Off
- Memorandum of Understanding with Respect to Joint Registration of Business Between Canada Customs and Revenue Agency and the Province Manitoba

Saskatchewan

- Memorandum of Understanding Concerning the Communication of Taxpayer Information in Relation to the National Child Benefit
- Memorandum of Understanding for the Exchange of Information on Accountable Fuel Products, Tobacco, and Tobacco Products
- Memorandum of Understanding (relating to taxpayer information required for the administration and enforcement of The Special Support Program and Income Tested Resident Charge)
- Letter of Intent – Saskatchewan Sales Tax Credit
- Agreement Relating to the Collection by Canada of Saskatchewan's Provincial Sales Tax With Respect to Personal Importation of Specified Tangible Personal Property
- Memorandum of Understanding for the Collection of Debts due to Her Majesty in Right of the Province of Saskatchewan by Way of a Refund Set-off Between CCRA and the Government of the Province of Saskatchewan
- Service Management Framework Agreement

Alberta

- Memorandum of Understanding Income Verification – Student, Skills, and Labour Programs
- Memorandum of Understanding (relating to taxpayer information required for the administration and enforcement of the Seniors Program and the Special Needs Assistance for Seniors Program)
- Memorandum of Understanding Income Verification – Supports for Independence and Assured Income for the Severely Handicapped, Alberta Widows' Pension Program, and Alberta Child Health Benefit
- Memorandum of Understanding for the Administration of the Alberta Energy Tax Refund

- Agreement Relating to the Collection of Tobacco Taxes with Respect to Tobacco Imported by Consumers
- Memorandum of Understanding for the Collection of Debts Due Her Majesty in Right of the Province of Alberta by Way of Refund Set-Off
- Service Management Framework Agreement

British Columbia

- Letter of Agreement Between the Workers' Compensation Board of British Columbia and the Canada Customs and Revenue Agency – Re: Mutual Aid and Cooperation
- Memorandum of Understanding Concerning the Communication of Taxpayer Information in Relation to the National Child Benefit
- Memorandum of Understanding with Respect to Income Verification Between CCRA and the Ministry of Health Services
- Letter of Intent for the Administration of the BC Energy Rebate
- Letter of Intent – For Joint Integrated Business Number (BN) Registration Processes, the Assignment of the BN, and Related Federal-Provincial Services
- Agreement for British Columbia Tax and Interest Relief for Displaced Forest Workers in Respect of Financial Support Received Under the Forest Worker Transition Program
- Project Chapter, British Columbia-CRA Provincial Risk Assessment Pilot Project

Yukon

- Memorandum of Understanding for the Exchange of Information and Mutual Assistance
- Service Management Framework Agreement

Northwest Territories

- Memorandum of Understanding Concerning the Communication of Taxpayer Information in Relation to the National Child Benefit Between the Government of Canada and the Government of Northwest Territories
- Memorandum of Understanding for the Collection of Debts Due to the Government of the Northwest Territories by Way of a Refund Set-Off
- Memorandum of Understanding With Respect to the Administration of Requirements to Pay Issued to the Workers' Compensation Board Between the CCRA and the Workers' Compensation Board (WCB) of the Northwest Territories and Nunavut
- Service Management Framework Agreement

Nunavut

- Memorandum of Understanding Concerning the Administration and Payment of a Government Rebate to Nunavut Under the Canada-Nunavut Reciprocal Taxation Agreement
- Memorandum of Understanding With Respect to the Administration of Requirements to Pay Issued to the Workers' Compensation Board between CCRA and the Workers' Compensation Board of the Northwest Territories and Nunavut
- Service Management Framework Agreement

Annex C First Nations Agreements

Income Tax Collection and Sharing Agreements and First Nations Goods and Services Tax Agreements

Yukon First Nations

- Champagne and Aishihik First Nation
- Little Salmon/Carmacks First Nation
- First Nation of Nacho Nyak Dun
- Selkirk First Nation
- Teslin Tlingit Council
- Tr'ondëk Hwëch'in
- Vuntut Gwitchin First Nation
- Ta'an Kwach'an Council
- Kluane First Nation

First Nations Sales Tax

Bands

- Adams Lake Band (BC)
- Buffalo Point First Nation (MB)
- Chemainus First Nation (BC)
- Cowichan Band (BC)
- Kamloops Band (BC)
- Shuswap (BC)
- Sliammon Band (BC)
- Tzeachten First Nation (BC)
- Westbank First Nation (BC)
- Dakota Whitecap First Nation (SK)

Annex D CRA Advisory Committees

National Advisory Committees

Individuals

- Seniors Advisory Committee

Non-Profit Organizations

- Charities Advisory Committee

Professional

- Tax Professionals Advisory Committee

General

- Minster's Advisory Committee
- First Nations Advisory Committee

Business

- Appeals Advisory Committee
- Film Industry Advisory Committee
- International Tax Advisory Committee
- Large Business Advisory Committee
- National Small Business Advisory Committee
- Registered Pension Plans Advisory Committee

Scientific Research and Experimental Development (SR&ED) Committees

- SR&ED Partnership
- Biotechnology Sector
- Chemicals Sector
- Information Technology – Software
- Micro-Electronics Sector
- Pharmaceuticals Sector
- Plastics Sector
- Process Improvement Discussion Group
- Pulp and Paper Sector
- Textile Sector

Regional Advisory Committees

Professional

- External Advisory Committee (Atlantic)
- Institute of Chartered Accountants of Newfoundland and Labrador Audit Committee (Atlantic)
- Manitoba Professional Practitioners Consultation Committee (Prairie)
- Tax Practitioners Committee (Atlantic: PEI)

Business

- Nova Scotia Underground Economy Advisory Group (Atlantic)
- Pacific Region Large File Advisory Committee (Pacific)
- Small Business Advisory Committee (Atlantic)
- Small Business Advisory Committee (Northern Ontario)
- Small Business Advisory Committee (Pacific)
- Small Business Advisory Committee (Prairie)
- Small Business Advisory Committee (Quebec)
- Small Business Advisory Committee (Southern Ontario)

Local Advisory Committees

Professional

- CRA Tax Practitioners Advisory Committee (Ottawa)
- CRA and Professionals Consultation Group (Toronto Centre)
- Lower Mainland CGA/CMA/CA Committee (Greater Vancouver area)
- Tax Practitioners Advisory Committee (Belleville)
- Tax Practitioners Consultation Committee (Halifax)
- Hamilton SR&ED Tax Practitioners Group (Hamilton)
- Tax Practitioners Consultation Committee (Hamilton)
- Tax Practitioners Consultation Committee (London)
- Tax Practitioners Consultation Committee (St. Catharines)
- Toronto East Tax Practitioners Consultation Group (Toronto East)
- Toronto West Tax Practitioners Consultation Group (Toronto West)
- Windsor Tax Practitioners' Consultation Group Sub-Committee (Windsor)

Business

- Calgary TSO Industry Liaison Committee (Calgary)
- Hamilton Insolvency Advisory Committee (Hamilton)
- Large Business Working Group of Montreal (Montreal)
- SR&ED Feedback Group (Hamilton)
- SR&ED Feedback Group (Kitchener)
- SR&ED Feedback Group (London)
- SR&ED Feedback Group (Windsor)
- Toronto Centre Large File Advisory Group (Toronto Centre)
- Toronto Centre SR&ED Consultation Group (Toronto Centre)
- Toronto West Large Business Advisory Committee (Toronto West)
- Toronto West SR&ED Stakeholders Group (Toronto West)